

Stena Line chief Bo Lerenius said the Swedish ferry operator was committed to remaining an independent English Channel carrier and was not interested in a merger with Britain's P&O. Page 17

PepsiCo stock split: US drinks group PepsiCo amounced a two-for-one stock split, mirroring the action of its rival, Coca-Cola. The move will double the number of authorised Pepsi chares to 3.6bn. Page 17

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Chechen rebei leader alive: Chechen separatist leader Zelimkhan Yandarbiyev, reported by pro-Moscow authorities as having been killed earlier this week, appeared on rebel controlled tele-vision alive and well. He blamed Chechnya's pro-Moscow administration and the Kremlin for spreading rumours of his death. Page 2

Warning to Mediterranean: Countries round the Mediterranean face severe environmental problems unless they change their food production methods, the UN Food and Agriculture Organisation warned. It highlighted water shortages, deforestation and erosion as key risks.

Hong Kong says no to China request:

Anson Chan (left), Hong Kong's chief secretary, said the British colonial administration would not co-operate with a legislature Beijing plans to install in the territory. China criticised the refusal, saying British

Cummins joins Fiat in \$300m engine venture

By Peter Marsh in London

Cummins Engine of the US and the iveco and New Holland subsidiaries of Fiat of Italy have launched a \$300m project to develop low pollution, fuel-efficient diesel engines for trucks, farm equipment and buses. The three-way joint venture, to be called the European Engine

Alliance, will invest \$200m on a new factory in Turin and \$100m on a UK development cantre. The project, reflects the trend already well advanced in the aerospace industry of companies sharing with rivals the costs and risks of long-term, large-scale

development projects. Engine development costs for many types of projects have of tougher pollution and noise regulations and the use of more sophisticated manufacturing technologies. It is thought that Fiat examined a range of other options before choosing the Cummins collaboration as the most cost effective. The partners reckon that by around 2007, they will be producing some 400,000 of the new

Europe's second biggest truck company and a builder of buses. Mr James Henderson, chairman of Cummins, said the partnership would "greatly accelerate our sales" in Europe, while Mr Riccardo Ruggeri, chief executive of New Holland, said the partnership would lead to the most advanced diesel engines on the market

Mr Carl Ahlers, an executive wbo has worked for all three pariners, will head the alliance which will be based near London at a location yet to be decided. The move underlines the UK's good record in setting up new engine development operations. bringing Britain roughly level with Germany among European countries housing important new engine development for the auto-

Rifkind had earlier this year promised full co-operation. Visiting Hong Kong, opposition foreign affairs spokesm Rohin Cook said a Labour government would give the territory's ethnic minorities full right of abode in Britain if they were stateless after China resumed control. HK talks tough, Page 6; Labour pledge, Page & Observer, Page 15

US ships near Liberia: US ships move closer to the Liberian coast after the US embassy came under fire during fresh fighting in the capital, Monrovia, between rival warlords.

RAF to leave Germany: Britain's Royal Air Force is leaving Germany, where it has had bases since the and of the second world war. The last UK base, RAF Brüggen, will close in 2002. Page 8

Fires ravage Mongolia: More than 11,000 Mongolians are trying to fight grass fires that have swept to within 19 miles of the capital, Ulan Bator, killing 16 people. Forests and pasturelands are tin-der-dry after a winter with little snow.

Fayed denies politics plan: Mohamed Fayed, Reyptian chairman of London's huxury store Har-rods and owner of the Ritz hote) in Paris, denied reports that he planned to form a new political party in Britain.

Chirac attacks supermarkets: French president Jacques Chirac accused the country's supermarkets of drawing customers into "unfriendly" suburban centres and leaving deserted

areas in city centres and the countryside. Page 2

Ralitrack wakes: The UK government expects the country's railway lines, stations and signals to be valued at between £1.75bn and £1.85bn (\$2.94bn) when Railtrack is privatised. Page 8; Lex, Page 16

Elektrowatt. Swiss engineering and power group. is to place its 40 per cent holding in UK electronics components distributor Eurodis Electron after failing to find a buyer for the stake. Page 17

STOCK MARKET DIDICES B GOLD (+19.87) (+8.28) (+8.28) Burge and Far East CACIO close _\$393.55 (391.6 I DOLLAR FT-SE 100 21,515.01 (-226.29)New York: Localization £ ____1.4945 DM ___1.53445 E US LUNCHTIME RATES Fr ____5.185 SFr ___1.24955 Y ____105.085 Loog Band London £ ____1,4965 DM ___1,5336 Fft ___5,1773 (1,5006 E _____15336 (sama) FF ____1773 (sama) SF ____12425 (1.2447) Y ____105.115 (104.753) OTHER RATES (\$96,2) (96,2) (97.399) # STERLING 10 vr J68 DM _____2295 (2.9012 NORTH SEA OF (Argus) (19.51) | Takya \$ close: Y 195.3 \$19.00 Brent Dated LBK 220 Germany DM4.00 Lithuaria Lis 15:00 Cetar OR13.00 Schör Greece Dr400 Lux U775 S.Arabia SR12 Din1.250 Hong Kong HKS20 Matik LmL55 SingaporeSN4.30 Litr150.00 Isaber HKS20 Matik LmL55 SingaporeSN4.30 Ch1:20 Indle Ba75 Homer H4.75 S.Afta R12.00 Oct.20 Indle Ba75 Ngent Nata890 Spein Pla250 Oct.20 Indle Shi/30 Norway NK22L0.05 Swetten SK020 Sp. KS20 Isaber Shi/30 Palesten R40 Synta SN25.00 BK120 Japan J1:50 Palesten R50 Synta SN25.00 BK122 Johann J1:50 Palesten R50 Synta SN25.00 BK123 Lotan J1:50 Palesten T3:50 Turken Lit.750 FM1550 Labert H5.650 Prints J1:50 Turken Lit.750 FM1550 Labert J1.2000 Albania Austria Beixain Betrain Dirit.250 Hong v. Belgium BHV5 Hongevy Belgius Lvrist0,01 betraf Cyprus CC1.20 indle Capati Rp. 1650 israel Desmerk Divita Rely Byth ES5.00 Japan Botria BV-22 Jorden Desnie Egypt Estonia Finlanci Fierroe

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An unravelling of the relation-

during a conversation with one

of its executives, a KLM official

said the Dutch airline was con-sidering three options. The first

was to continue the existing

arrangement under which the

two airlines co-ordinate their pas-

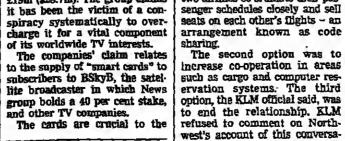
Aerospace Correspondent

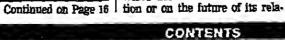
Questionable tax planning and embarrassing management fail-ures have been revealed by a Northwest Airlines of the US yesterday said KLM of the Financial Times investigation Netherlands was considering endinto News Corporation, the ing the alliance between the two airlines. But the US carrier said it wanted the partnership to conmedia and entertainment group beaded by Mr Rupert Murdoch. Details bave emerged of the

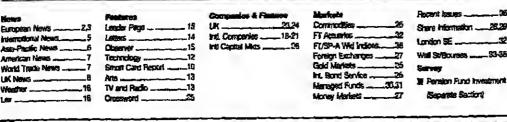
tax avoidance structure operated Aviation industry executives have been expecting the alliance to collapse since late last year at a key News Corp group subsidiary and of disguised consul-tancy payments to executives' when KLM began legal action over a "poison pill" scheme adopted by Northwest to protect foreign bank accounts. The investigation has also disit against takeover. closed how internal management

ship would leave KLM free to TV SMART CARDS: seek other partners. It is believed to have had talks with British AN FT INVESTIGATION Airways about an alliance which would create the strongest avia-tion force in Europe, with bases at London's Heathrow airport Page 10 and Amsterdam's Schipbol. News Corp says card sharps Industry officials have specuhave cost it £19m lated that BA and KLM might Derk tax affairs in a corner of then form an alliance with Amer Rupert Murdoch's empire ican Airlines, which does not have a European partner. Northwest said yesterday that

controls at News Corp group failed to halt an alleged conspiracy involving employees. In February several compar in the News group, including News International, its main UK subsidiary, started a High Court action to recover more than £19m (\$28.7m). The group claims it has been the victim of a conspiracy systematically to over-The companies' claim relates to the supply of "smart cards" to







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Trade unionists march through Bel tors signafied their opposition to the policies of Serbian president Slobo-100 May Day ralles across Germany Page 6

which it regarded as "very valu-

able", and to extend it into new

areas. Northwest said its arrange

ments with KLM brought it an additional \$50m a year in operat-

ing profits. It said KLM gained

additional operating profits of \$130m to \$170m a year from the

Northwest said: "We have not

initiated any discussion on a

hreak-up, although the legal action by KLM has clouded the

alliance. The alliance is benefit

ing both carriers. We've only

scratched the surface of what we

could do together." KLM's legal action followed

Northwest's adoption of a scheme

to prevent the Dutch sirine from raising its stake in the US carrier

strong evidence that KLM repre-

sents a creeping control threat to

KLM countered that there was

no prospect of its taking control.

of Northwest because US rules

prevented a foreign carrier from

owning more than 25 per cent of

In an attempt to repair rela-

tions between the two airlines,

Mr Pieter Bonw, KLM's presi-dent, and two of his fellow senior

executives stepped down from the Northwest board in February

to make way for independent

directors. KLM said at the time

the dispute was between share-

holders and not between the two

airlines themselves.

Page 16

_\$3-35

Page 36

alliance.

World stocks

Northwest".

a US airline.

Sec. 19 Marcal grade in a May Day protest holding a banner proclaiming 'bread and democracy'. Hundreds of demonstradan Milosovic. At one of more than engines a year. Slightly more than half will be used by Cum-mins in its own businesses, and a leading trade unionist vowed tough opposition to the government's plans to cut spending and reform the welthe rest shared between New Holfare state. German threat, Page 2; land, one of the world's top three China police halt May Day protest, tractor makers, and Iveco, Peters: Pasta

motive industry The new Turin factory will turn out early next century some 240,000 of the new, mainly four or six-litre, engines a year. Half of them will go to New Holland for use in tractors, and other farm machines such as grape harvesters and baling vehicles

Iveco and Cummins will share the remaining 120,000 engines a year, for putting into trucks and buses made by lveco and for a range of applications on behalf of

Continued on Page 16

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NEWS: EUROPE

Russian rivals turn out for May Day

By George Grahem and

London.

Graham Bowley in London

A deal to reschedule \$33.1bn of

Russia's debt repayments to com-

mercial banks could be completed as

early as the autumn if individual

creditor banks accept the details of a

package worked out this week in

Dentsche Bank, which chairs the

Russian advisory committee of the

London Club of commercial bank

creditors, said agreement had been

Detailed documentation on the

reached on the outstanding issues.

By Chrystia Freeland In Moscow and agencies

Across much of the former USSR, May Day - once a ritualised tribute to Soviet rule was yesterday transformed into an occasion for passionate, but largely peaceful, political

The battle of the titans was in Moscow, where President Boris Yeltsin and Mr Gennady Zyuganov, his Communist rival in the June 16 presiden-tial ballot, held competing ral-

Although Mr Yeltsin has been steadily rising in the polls, his crowd of several thousands was outnumbered by Zyuganov supporters who turned up at the statue of Karl Marx near the Bolshoi Theatre to hear their man speak.

Mr Yeltsin, who has ignored the traditional May Day rally in previous years, told his raindrenched backers: "We have come together at this rally to support a radical change for Russia. We must win the election to confirm we are going the right way and we will

In St Petersburg, which supported reformers more strongly than any other Russian city in parliamentary elections last year, an even bigger crowd of Communist supporters took to the streets to celebrate the workers' holiday, Russian agencies said that as many as 35 000 marched down Nevsky Prospekt, the city'a fabled main street, chanting and carrying red banners.

More than 20,000 people reportedly took to the streets of neighbouring Belarus, many of them protesting at deteriorating economic conditions and some voicing their opposition to the strong-arm rule of Presi-dent Alexander Lukashenko. Yesterday's demonstration was reportedly more peaceful than a rally on Friday which was violently broken up by police. About 10,000 demonstrators in Athens demanded government action to fight unemployment and an end to austerity measures which have seen wages lagging behind the annual 9 per cent inflation rate.

• Two people were killed and six injured when police clashed with workers in Istanbul before the start of a May Day demonstration. The clash began when some workers gathering for a demonstration refused to be searched.

hanks which hold Russian debt, with the endorsement of the 13 main creditors who make up the London Club advisory committee.

The London Chub proposals follow a provisional agreement last Novem-ber and a deal signed earlier this week between Russia and the Paris Club of creditor governments for the rescheduling of more than \$40bn of government-to-government debt pay-

Both deals are underpinned by Russia's agreement earlier this year

terms will be sent out in the next with the International Monetary Mr Jonathan Hoffman, a director in from individual creditor banks. few weeks to the several hundred Fund on a three-year economic economics at CS First Boston. "One Although obstacles of this sort have reform programme backed hy a \$10.1bn loan

Analysis said that although progress on the London Club deal had been widely expected, it was an important part of Russia's effort to join the international financial community as a member in good standing. They also said the debt talks would help set the stage for a new Eurobond issue later this year.

"These are all signposts on the way for Russia becoming internationally credit-worthy again," said

Russian debt deal ready for creditor banks

signpost was the IMF deal; another is the Paris Club; this is the third;

the fourth will be the election." But western investors warned that Russia's success in attracting foreign capital could also hinge on the outcome of June elections, in which President Boris Yeltsin faces a strong challenge from his Communist rival, Mr Gennady Zyuganov.

Bankers close to the negotiations said it was considered extremely unlikely that the London Club deal could now be held up by objections

arisen in some similar reschedulings, such as Brazil's, it is not believed that large holdings of Russian debt have been amassed by any single creditor. Nevertheless, Russian debt has been so widely traded

The London Ciub deal will spread \$25.6bn of principal payments and \$7.5bn of accrued interest over 25 years, with a six-year grace period. The first payments will fall due in December 2002

The negotiations have dragged out over four years, including a one-year delay while the London Club tried unsuccessfully to persuade Russia to abandon its sovereign finmunity. Russia was advised in the negotia-

tions by Cleary Gottlieb, the US law firm, and by SBC Warburg, the London investment bank owned by Swiss Bank Corporation.

Head of union federation threatens to oppose government cuts with 'clenched fist' Fierce attack on German welfare plan

By Wolfgang Münchau In Frankfurt

Germany'a leading trade unionist yesterday vowed to use a "clenched fist" in the fight against spending cuts and changes in the welfare state proposed by the government. Addressing 20,000 union members in Berlin at one of more than 100 May Day rallies throughont Germany, Mr Dieter Schulte, president of the DGB union federation, threatened massive opposition to government plans to save DM50bn (\$33bn) in public spending and to relax laws on sick pay and dismissal

"Under the pretext of alleged abuses of social benefits the government decided to fight the unemployed, rather than unemployment," Mr Schulte said. "In doing so it has become the tool of employer interests. We have held out our hands for an alliance for jobs, but if others are looking for conflict, they will have to grip our clenched fists."

The unusually militant comments reflect union fears that the government and employers are colluding to roll back the consensus-based welfare state. Mr Klaus Zwickel, president of the IG Metall metalworkers' union, warned: "We will not hesitate to use every available means of industrial strife." OTV, the public sector union, promised a "dramatic wage round" if the government pressed ahead with a public sector wage freeze this year. Mr Zwickel is particularly

opposed to government plans to change Germany's generous system of sick pay, which entitles employees to full wages including bonuses and regular overtime - from the first day of illness.

The government's proposal to limit sick pay to 80 per cent competitive.

of basic pay would not affect sick pay arrangements in many industries, including the metal and engineering sectors, where the current arrangements are enshrined in collec-

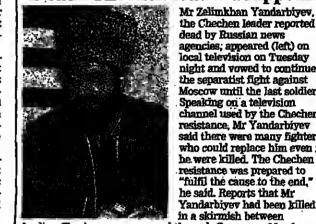
tive agreements. But the trade unions' increasingly confrontational customers into their big "unfriendly" anburban centres and creating "deserted areas" in city centres and the countryside. The president's broadside against large-scale retailing, stance suggests that if employers were to terminate the existtraditional May Day delegation of small shopkeepers. His remarks follow the French cabinet's endorsement on Monday of further draft legislation to protect small ing contracts, they might risk massive protests, similar to those in the late 1950s when IG Metall secured the current sick shopkeepers. The legislation would tighten planning permission for all new supermarkets of more than 300 square

pay arrangement. Yesterday's demonstrations came as an opinion poll suggested that the budget cuts which also include a postponement of a child benefit increase and reductions in bealth care provisions - are unpopular with the public at large. The poll by the Forsa research organisation found 72 per cent against the plans and about 90 per cent support for the view that the government was not doing enough to combat unemployment

Despite the strong sentiments expressed yesterday, it is not clear whether the unions would be able to call substantial strikes at a time of record unemployment. More than 4m Germans are registered unemployed, about 11 per cent of the workforce.

Mr Peter Hintze, general secretary of Chancellor Helmut Kohl's Christian Democratic Union, warned the unions yesterday not "to revert to the old rituals of class warfare".

German employers have given the government proposals a cautious welcome as a move in the right direction. in a comment bound to infuriate. the trade unions further, Mr Klaus Murmann, president of the employers' federation, said Germany would need to create some low-paid jobs to remain



the Chechen leader reported dead by Russian news agencies; appeared (left) on local television on Tuesday night and vowed to continue the separatist fight against Moscow until the last soldier, Speaking on a television channel used by the Chechen resistance, Mr Yandarbiyev said there were many fighters who could replace him even if he were killed. The Chechen resistance was prepared to "fulfil the cause to the end," he said. Reports that Mr Yandarbiyev had been killed in a skirmish between

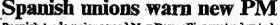
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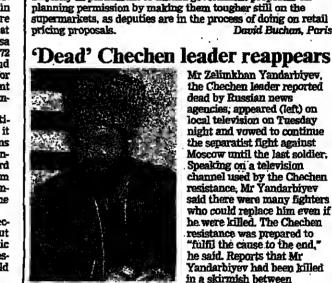
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David Buchan, Paris

feuding Chechen groups spread through Grozny on Monday and were gleefully seized upon by Russian military

commanders as evidence the rebel leadership was splintering. Mr Yandarbiyev, a nationalist writer and a forceful advocate of Chechnya's independence bid in 1991, took over as leader after General Dzhokhar Dudayev was killed in a Russian rocket attack on April 21. Mr Yandarbiyev has pledged he will revenge Mr Dudayey's death, prompting Russian authorities to tighten security in Moscow. John Thornhill, Moscow





in the secondary market that it is still not entirely clear who holds which debts. Reconciling claims could now take several months. Although creditor banks bope to finish the process by the autumn, some bankers believe it could drag on into the winter.

EUROPEAN NEWS DIGEST

Chirac hits at

President Chirac vesterday accused France's supermarkets of

which he chose to describe as a "purely French phenomenon

which hardly exists anywhere else", came as he received a

metres. The country's large retailers are already up in arms about a government bill to restrict their ability to offer

majority in parliament to amend government proposals on

discounts in the interest of banning "predatory pricing". Mr Chirac's rhetoric may encourage the centre-right

heving an "extraordinarily negative" influence in drawing

superstores

Will Berlin knock down its political Wall?

Demonstrators at the troubled Bremer Vulkan shipyard make sure government and employers get

their message: "Hands offered. Fists clenched" proclaims the banner

Frederick Stüdemann on a referendum on whether to merge with former eastern state of Brandenburg

ix years since the S finances for a new airport in Berlin were approved, the governments of the city and of the state of Brandenburg still cannot agree where to build it.

For locals it has become one of those on-going sagas yon don't know whether to laugh or cry over.

What is aerious enough. though, is that the dispute is depriving the region of the investment and jobs the new airport would bring.

This Sunday, Berliners and Brandenburgers are being offered the chance to make such costly wrangles a thing of the past when they go to the polls to vote in a referendum

on whether to merge. If they decide to do so, Berliners and Brandenburgers will not only be removing one of the relics of Germany's postwar settlement but also opening the door to further possible mergers among other Länder (states), which would represent an important change to the

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Parinaire No 67806D. SWEDEN: Responsible Publisher: Hugh Carnegy 468 618 6088. Printer: AB Kvällstickningen Expressen, PO Box 6007, S-550 06, Johnköping. C The Financial Times Limited 1996. Editor: Richard Lambert, vio The Financial Times Limited, Number One Southwark Bridge, London SEI 9HL. R

country's political fabric. For the Berlin airport débâcle also highlights the problems caused by the German federal system. particularly in the case of the country's city-etatea, whose infrastructure planning relies on the co-operation of a neigh-

bouring Land. A reform of the Lander system has been proposed by poli-ticians and constitutional experts ever since the Federal Republic of (West) Germany was founded in 1949. In the 1970s a government commis-sion recommended that for a state to be economically viable it should have at least 5m inhabitants, a condition satisfied by only five of the country's 16 states.

Such proposals have always foundered on regional pride and political interests. Many powerful politicians are reluctant to see any dilution of their state-based powers which at the federal level are reflected in the fact that the states are represented in the npper house.

For the Berlin-Brandenburg merger to go through, a majority of voters in both states must separately approve the proposal. Voters will also be asked to choose between 1999 and 2002 as a preferred date for it to be completed.

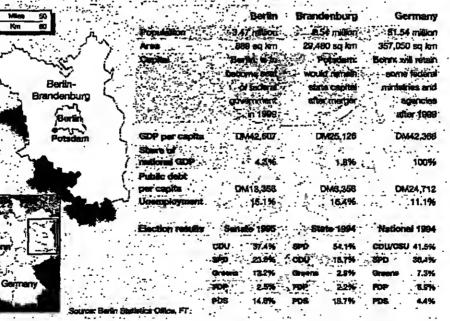
A merger is supported by the leaders of both states - Mr Eberhard Diepgen, the Christian Democrat mayor of Berlin and Brandenburg'a Social Democrat premier, Mr Manfred

Stolpe, who negotiated a merger treaty last year. The two leaders argue that a

merger would deliver significant economic benefits. Unemployment is high in both states. Berlin is heavily indebted and still struggling with its own reunification. Brandenburg, which was wholly in East Germany, is thinly populated and still heavily dependent on federal subsidies.

Mr Diegpen and Mr Stolpe argue that a single state would bring streamlined administration, common planning procedures and the ability to present

Berlin and Brandenburg: anatomy of a merger



Serious condition of city's finances revealed

The parlous state of Berlin's finances was highlighted yesterday when the Bonn finance ministry disclosed that the city's deficit last year was 36 per cent higher than planned following a slump in revenues, writes Peter Norman in Bonn.

A provisional analysis of the finances of the Länder (federal states) showed that Berlin ran up a deficit of DM10.1bn (\$6.6bn) last year, against a planned DM7.4bn, and accounted for more than a fifth of the overall DM45.7bn deficit of Germany's 16 Länder.

The city's expenditure rose by 4.3 per cent to DM42.3bn, but ended some DM600m below budget. Income of DM32.2bn was 3.2 per cent below that of 1994. The sharp deterioration in finances reflected a shortfall of more than DM3.2bn in income compared with the budget,

worki. They say this would improve the investment climate in the region leading to of the Brandenburg governthe creation of up to 80,000 new jobs over 10 years. Berlin officials say ending

duplication of government and administration would deliver year. The capital of the unified

with tax revenues some DM2bn below plan. Mr Hansgeorg Hauser, a state secretary in the Bonn finance ministry, said the budgetary position in all the states was difficult last year but the situation in Berlin had become acute. He called on Linder to intensify efforts to control spending and urged them to co-ordinate the consolidation of their budgets in a "national stability pact" with Bonn.

The ministry said the five new Länder of eastern Germany had been mable to keep their deficits within budget in spite of spending less than planned. Their overall deficit amounted to DM12.6bn last year against a planned DM10.8bm.

The 10 western Lander had an overall deficit . of DM23bn in 1995, only slightly higher than the DM22.9bn envisaged.

> that the treaty does not offer enough guarantees for jobs. specifically in agriculture and the public sector. Business organisations and trade unions are in favour.

A recent meeting of 1,800 business leaders from across the region welcomed a possible end to competing jurisdictions, Socialism, east Germany's which have in the past led to right confrontation over such issues as out-of-town development, among which the delay on the airport is the most celebrated.

Mr Michael-Andreas Bntz. spokesman for the Berlin Senate, the city government, says that without a merger such tensions will continue to plague relations between the states and lead to an increase in bureaucracy. "To resolve these issue an estimated 200 state treaties would need to be negotiated," be says.

Such arguments have failed to impress the majority in either state. According to an opinion poll published last weekend by the Tagesspiegel newspaper 45 per cent of Berliners support a merger and 33 per cent are opposed, while in Brandenburg 39 per cent were in favour and 47 per cent opposed.

One reason for such opposition is history. Some Brandenburgers feel a united state would bring a return to the days, both under Prussian and communist rule, when it lost out to the more populous and powerful Berlin.

The PDS has taken up these fears in its anti-merger cam-paign. In Brandenburg the party compares merger to a rerun of German unification, when, they say, the east was all but swallowed up by the

Mr Martin Matz, head of the liberal Free Democratic party in Berlin, says failure to endorse the merger would have wider repercussions. "The other Lander are waiting to see the result here. If a marger cannot be done here in two states, where the administrative structures are not yet fully developed, then it can never be done in those areas where structures are well established."

Among other states considered ripe for a merger are the city-states of Bremen and Hamburg, which reformers say should be brought together. with neighbouring Schleswig-Holstein and Lower Saxony into a single Nord Staat of about 12.7m people.

Spanish trade unions used May Day rallies yesterday to brace themselves for their first dealings with a new centre-right administration.

Both main trade union federations, the General Workers' Union (UGT) and Workers' Commissions (CCOO), called on the incoming prime minister, Mr José María Aznar, to start the talks he promised in his election campaign, and warned him they would fight any cuts in social benefits. Mr Cándido Méndez, the UGT leader, said at the end of a

march in Madrid: "The new government should be pretty clear the unions will not put up with any erosion of our social protection." He warned that any cuts in education, health, unemployment benefits or pensions would bring confrontation.

Mr Aznar promised to start talks on a job-creation pact with the unions immediately after the March 3 elections won by his Popular party. But he had to put the meetings off while he negotiated instead with regional parties to enlist support for a David White, Madrid minority PP government.

Spain's farmers go anti-French

Spanisb farmers plan to stage an anti-French day today in retaliation for the latest resurgence of attacks on trucks carrying Spanish strawberries and other agricultural produce across the French border.

Spain's main farmers' body, COAG, said it would stage countrywide protests evoking the uprising of May 2, 1808, against Napoleonic occupation forces, an event commemorated by a public holiday in the Madrid region.

Along with other farmers' unions, it is calling for a boycott of French farm products and one of its leaders has warned of a violent response if the incidents continued. COAG complains that attacks by what it calls "bands of French vandals" have not diminished in the 10 years since Spain joined the European Union. David White

Freedom party urges restrictions

Mr Jörg Haider, leader of Austria's rightwing Freedom party, told a May Day rally there were too many foreigners working in the country and said it had to reduce greatly the number of immigrants to fight unemployment. "In Austria we have 300,000 unemployed and 300,000

registered foreigners," Mr Haider told supporters in the eastern province of Burgenland. "We finally have to consider how to cut back on foreigners in Austria." Mr Halder, whose party won nearly a quarter of the votes in

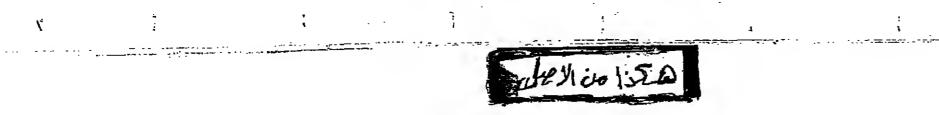
the general election in December, was immediately attacked by the ruling Social Democrats who accused him of cheap polemics. At 3.9 per cent, Anstria's unemployment rate in among the lowest in Europe.

The remarks came as parties began preparing for important municipal elections on October 13 in Vienna, a long-time Social Democratic stronghold with provincial status. Immigrants, who make up 9 per cent of Austria'e 8m population, are concentrated in the city. Rester, Austria

Poland enters smoke-free zone

A law aimed at limiting smoking took effect yesterday in Poland, where the habit is rife. Indoor smoking in workplaces, public buildings, hospitals and similar sites will be allowed only in designated areas. Cigarettes will no longer be sold singly to those under 18 or in vending machines.

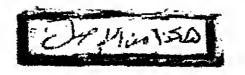
Tobacco advertising will be formally banned on broadcast media, in cinemas and in youth and children's publications. Under the law, 20 per cent of the area of tobacco adverts must consist of health warnings. Within a year cigarette packets will have to carry two warnings, covering 30 per cent of their surface. Poland is an expanding market for the large international tobacco companies. In a country of 89m, 8m men and 4m women smoke 100bn cigarettes a year. Reuter, Warson



a united front to the outside Berlin-Brandanhurg with a population of 6m, would be Potsdam, currently the home

ment. Berlin would be a metropolitan district as well as the seat of national government. The merger is backed by all the main political parties

savings of DM1bn (\$600m) a . except the Party of Democratic state, which would be called reformed communists, who say protracted negotiations or out-



NEWS: EUROPE

FINANCIAL TIMES THURSDAY MAY 2 1996

sustained popularity to the downtrodden, Soviet-era men-

Seventy years of commu-

nism, they say, have taught many Belarusians to admire an iron-fisted leader who

makes populist promises to

the masses and keeps the

streets clean, no matter what

be may do to the chattering

But some observers warn

that Belarus, which today

harks back to the Soviet past, could also be a harbinger of

Russia's future. Mr Lukashenko, who is the

strongest advocate of a full

political union between the

two Slav states, is said to cher-

ish hopes of one day being the

leader of that greater

Russian-Belarusian confedera-

Mr Lukashenko does not

tered the trick of catering to

the post-Sovlet electorate's

dual craving for populism and

for order. As the Belarusians

Chrystia Freeland

have learned, he is an easy

man to underestimate.

tality of their people.

classes.

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Gdansk yard in balance

The future of Poland's ailing Gdansk shipyard is in the hal-ance as the Privatisation Munistry sifts through low-price bids. Potential huyers of the yard are Norwegian and Ger-man shipowners and a group of US investors, while a South Korean shipyard group hovers in the background.

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A team from LG Group, the South Korean conglomerate, visited Gdansk this week, but the company denied reports it had made an offer.

The Privatisation Ministry has Roated the idea of includ-ing Gdansk in an industry-wide holding company and recently proposed to O J Libaek and Pariners, a Norwegian shipowning group, and to Daewoo, the Korean industrial conglomerate, that they take a stake in the company, which would control the three main gards of Gdansk, Gdynia and Szczecin.

However, until now Libaek's focus has been on the more modern and better equipped Gdynia yard, a few miles along the coast from Gdansk, and it has also held talks with the Szczecin yard, considered the most successful of the country's shipbuilders.

It will be an uphill struggle for the government to persuade foreign investors to include Gdansk in their future plans.

The Privatisation Ministry is ready to dispose of all or part of its 60 per cent stake in the Gdansk yard's equity, but industry sources helieve any potential hidder is unlikely to offer more than a token purchase price and demand in exchange outright control of the yard.

But the assumption of con-trol requires first gaining the consent of the yard's 7,000strong workforce which owns 40 per cent of the equity. This stake was handed over by the government two years ago.

The workers have already voted to accept 2,000 job cuts but this is not enough to cancel out the shipyard's serious financial problems. Only a

24 4 4

Christopher **Bobinski** reports from Warsaw on continuing efforts to sell a symbol of Poland's past

third of March's wages have been paid, telephones have been cut and power supplies are limited because of unpaid

bills Last year the yard lost 85m zlotys (\$32m), raising accumo-lated losses beyond 300m zlotys. Bank Handlowy, the main creditor, has refused further financing and has turned down a plan to write-down its loans as it holds Treasury guaran-tees on much of its lending to the yard. But shipowners from Ger-

many, Norway and Denmark recently provided some relief by waiving \$19m in penalty payments. These were sparked off by

delays in delivering four ves-sels currently under construction They also accepted cuts in the standard of equipment of the four ships and agreed simi-

lar cuts on a total of 21 ships on order in a package worth up to \$1m per ship. In return they are demand-

ing government guarantees against any losses they might incur if the ships are not completed. The vard's management esti-

mates that it needs 100m zlotys in working capital to complete ships under construction and additional loans to cover fixed costs worth around 13m zlotys

a month But if no new owner emerges the government will have to decide whether to recapitalise Gdansk itself - and then face similar demands from other ailing industrial giants.

A last resort is to summon the political courage to close the yard known around the world as the birthplace of Solidarity.

. . . .

Future of |Collective farmer with tsarist ambitions

Lukashenko was the Kremiln's most honoured guest, receiving kisses from the Russian president and a blessing from the Ortbodox Patriarch after signing a union treaty with Russia. But back home in Minsk, the

Belarusian capital, Mr Lukashenko has been baving a tongher time, as western observers and local activists have stepped up their accusa-tions that he is turning the Slavic state of 10m people into an anthoritarian regime bark-ing back to the Soviet Union. At a time when many other former Soviet clties are swiftly shedding their communist skins, in its outward appearance Minsk has become a throwback to the oncien regime. A towering statue of Lenin dominates the city's centrai square and nearby the republic's Soviet era red flag, which has been restored as the nation's official symbol, flut-

ters proudly. Belarosian politicians and their western sympathisers are ever more troubled by signs tbal Mr Lukasbenko is reclaiming the substance, as well as the symbols, of an earlier era.

Last week his security forces brutally broke np a demonstration by more than 40,000 protesters. At least 200 people. some of them uninvolved bystanders, swept np in a police dragnet, were arrested and held incommunicado for three days. Some activists could face criminal charges and lengtby prison sentences. Leading activists opposed to Mr Lukashenko have had their homes searched and been

hiding.

Hardliner: Belarusian President Alexander Lukashenko James Hall

arrested by police. A few oth- bevy of beely but nervons crs have gone Into aides in his official residence. crs have gone into Mr Lukashenko is unrepeu-

The crackdown, and Mr tant In an interview with the Financial Times, the president Lukashenko's gradual crosion of the independence of the judiclary, the medla, parliadescribed last week's demonstration, which was a protest ment and even private business, have led some observers to accuse him of building "a police state" which is reminisagainst his government and his hopes of forming a full political and economic union

demonstrators, he says, were "drunk and stoned", and he claims the journalists who were beaten at the raily were victims of the demonstrators and not of his security forces. The demonstration was one of four mass opposition rallies held over the past month -including one yesterday. "We reacted calmly, we didn't pro-voke anyone." be said. "Let me assure you that if we had wanted a fight there would have been a real one. In demo-cratic countries... they would just hit such people over the head with a truncheon and been done with all discussions

Mr Lukashenko, aged 40and a former collective farm man-ager, is not embarrassed by domestic accusations - backed by a recent US State Depart-ment report on Belarus which accused him of muzzling the media.

According to the State Department, Mr Lukashenko enjeys "essentially complete control of the broadcast media" and has banned the main opposition newspapers from using the state postal services or the state's monopoly printing press, forcing them to publisb abroad and rely on less effective private distribution channels.

Mr Lukashenko dismisses these charges, arguing that the opposition press is mentally unbalanced.

"If yon read what the oppo-sition press writes about me you would simply be borrified and yon would say, they must be deranged people," he says. Nonetheless, in what Mr Lukashenko holds out as an example of Belarusian liberalism, "we have not closed a sin-

sle publication, although we ought to have done so, parely according to laws." The Belarusian opposition chafes at Mr Lukashenko's cavalier disregard for the civil liberties of his compatriots, but what pains them most is the argument which is the president's trump card: his tre-mendous public popularity.

'For me the will of the Slavic peoples is a law. If their will is to send me far beyond the

openly admit to such ambi-tions. But he is confident that "80 per cent" of the Russian people_are_already_bls borders of our state I will go'

supporters. He coyly concedes: "For me the will of the Slavic peoples is The recent demonstrations suggest that a sizeable number a law. If their will is to send of Belarus's normally biddable me far beyond the borders of people bave become angry about the slide into authoritarour state I will go." As the contest between Mr ianism. But the silent majority, or at Yeltsin and his communist

least 50 per cent according to rival, Mr Gennady Zyuganov. independent polisters, is still firmly bebind the populist leader who was a political intensifies in Russia, Mr Lukasbenko's solemn pledge seems like comic relief from the main event. But Mr Lukashenko is a skilunknown until his surprise victory in Belarus's 1994 presiful politician who has masdential elections.

"Am I a dictator or not?" Mr Lukashenko asks. "With such extraordinarily high popularity, why would I need to run the country with dictatorial methods? Belarus's despairing liberals

> add extra European flights from Geneva. "Swissair and Crossair currently serve 40 destinations via direct

Crossair's European service over the last five years will continue," it said. Swissair rejected a suggestion by Geneva politicians that Crossain should be allowed to offer intercontinental connections from Geneva. "Solid, long-term economic health is needed for the Swissair group to meet the demands that are being made of

it," Swissair said in its statement.

cent of a "Latin-American with Russia, as "a meeting of the fascist opposition". The attribute Mr Lukashenko's style junta". Surrounded by a

محمد المراجع ا

Swissair tries to defuse Geneva-Zurich row

Swissair yesterday announced a series of improvements in its services from Geneva in an attempt to curh criticism of its decision to switch 13 of 15 long-haul flights from the city's airport to Zurich airport, Renter reports from Zurich.

The government, which has been critical of the airline's proposal, said it would look into the "consequences" of the Swissair measures. Last week federal and local officials asked the airline to reconsider its plans to transfer Geneva's connections with the

Angeles to Zurich, with Geneva retaining links with New York and Washington as well as all European connections.

The controversy has highlighted tensions between western, Frenchspeaking Switzerland, where Geneva is the dominant city, and the Germanspeaking east, centred on Zurich. There were also protests from businesses operating in the Geneva area. Swissair said yesterday it would go ahead with its plan to ease interconti-

Middle East, West Africa and Los nental connections to Geneva after tries which did not have air traffic the reductions with 10 daily shuttle flights between Geneva and Zurich starting in November.

Geneva.

weekly between Geneva and north Africa, New York, Washington and many European destinations. Its regional subsidiary, Crossair, would Swissair said airlines from coun-

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be encouraged to gain access to the Swiss market in general and Geneva in particular. This would require mutual liberalisation of air traffic rights by Switzerland and the other countries involved. The company said it would con-

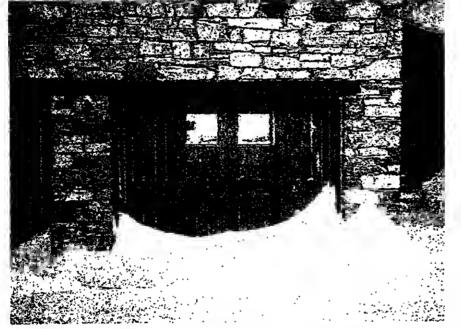
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flights from Geneva. The growth in

agreements with Switzerland should

Passengers on the 30-minute shut-tles to Zurich would have a transfer time of 40-60 minutes for the main intercontinental flights, a much quicker transit time than at most European airports. Ticket prices for long-haul flights would be the same tinue to offer more than 500 flights whether boarding in Zurich or

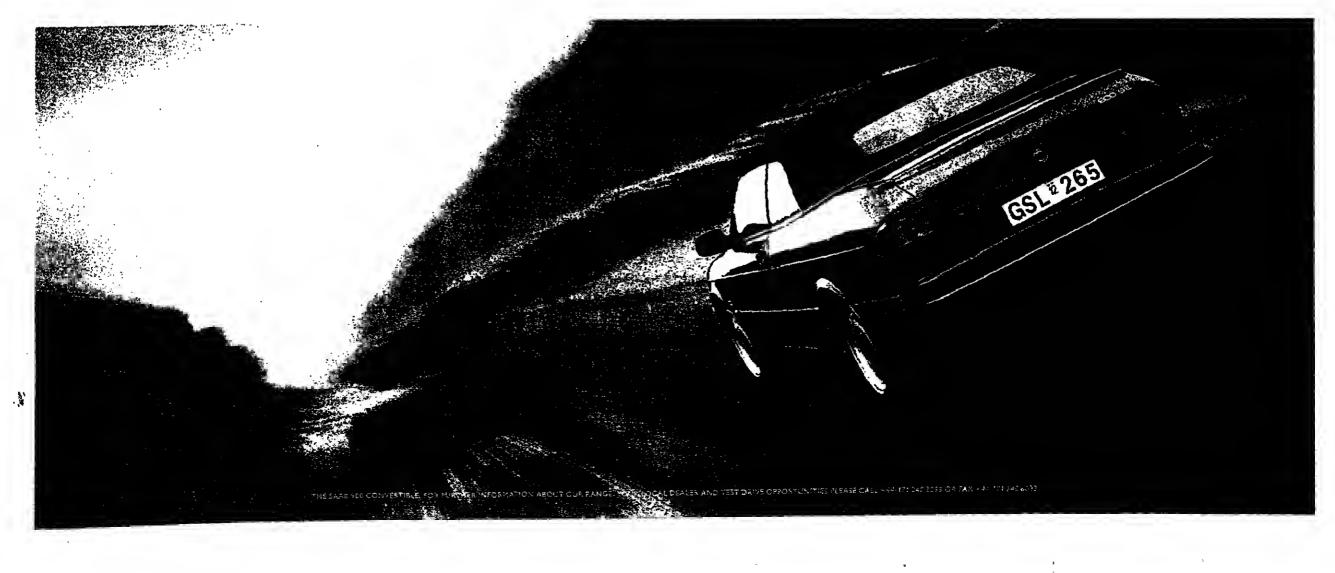
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Here in Sweden, we don't enjoy endess sunny summers. Rather the opposite. So for year-round pleasur with our new convertible, we added a quick fully automatic top with tigh fit, triple insulation, a glass rear with defogger, a superio heating system and roadhandling that gives a firm grin on slipper oads. We are sure you'll also appr clare it in warmer climates for its solid soundproofing and good looks - even with the top up.

Most convertibles spend nine months of the year in jail. Not the Saab.



NEWS: WORLD TRADE

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US keeps rest of world hanging on the line World telecoms: the market leaders

Frances Williams on why attempts to agree a global pact on liberalising telecoms trade have been delayed

sation director general. pnt on a brave face vesterday after negotiators failed to meet Tuesday's midnight deadline for agreeing a global pact on telecoms liberalisation and instead put off a decision until February 1997.

He said he hoped for an even bigger telecoms liberalisation package then. "This is certainly the spirit in which 1 have presented the compromise: to safeguard what has been achieved, to safeguard the timetable and to give the possibility of an improvement." The decision ended two days

of frantic negotiations on how to prevent the collapse of the talks, once it became clear on Monday that the US did not intend to join an emerging

Washington's trading partners did not disguise their frus-tration that their efforts had again been undermined by a US administration seemingly more concerned with appeasing narrow domestic political and industrial interests than with securing the wider bene-fits of a multilateral deal.

This time, moreover, the European Union was in no position to salvage an accord as it did for financial services last summer. Without the US market - accounting for a third of world telecoms revenues of \$513bn in 1994 - an accord would have little value. Instead, the 53 countries taking part in the talks - together counting for over nine-tenths of world revenues - have agreed to put their best mar-

ment by February 15. All being well, the WTO telecoms accord will come into force on January 1 1998 as planned. However, it will also be possible for countries, including

the US. to downgrade or withdraw their market-opening proposais, with the risk once again that a deal could col-

Washington, whose own ambitious offer would have opened almost all domestic and

A telecoms

accord could save users more than \$1.000bn over the next 12 years

international services to foreign competition, rejected a deal this week for three main reasons:

 It did not have the neces sary "critical mass" of good quality offars from others. especially in Asia. Ms Charlene Barshefsky, acting US trade representative, said more than 40 per cent of world telecom revenues and more than 34 per cent of global international traffic were not covered by acceptable offers.

Against that, a number of Latin American and eastern European countries made what even the US concedes were. good offers to boost competition in their markets. Some 30 countries also agreed to adopt

r Renato Ruggiero, ket-opaning offers "in the all or some of the pro-competi-World Trade Organi- fridge" for further improve-tive regulatory principles designed to guard against abuse of market power by dommant domestic operators. The US also secured most of

what it wanted from the EU and Japan. Japan has fully opened its telecoms market to competition and dropped all foreign ownership restrictions apart from a 20 per cent limit on holdings in its two principal operators, NTT and KDD.

Meanwhile, EU ministers agreed to lift remaining curbs on foreign ownership of tele-coms companies by France. Belgium, Spain and Portugal, provided the US kept its prom-ise to relax restrictions on the landing of submarine cables. Canada, alone of the four Quad leading traders, has not allowed majority foreign con-trol of telecoms companies, though it has agreed to dismantle mocopolies for overseas and satellite services.

• Washington wanted the right to reject applications to operate international services ont of the US from carriers with or associated with a home-country monopoly. The worry was that monop oly operators charging high prices to connect calls in their domestic market could take unfair advantage of cheap international rates on calls out of the US and other liberalised

markets. The EU and others said the US position was tantamount to imposing reciprocity conditions, contrary to WTO nondiscrimination rules. However, Washington rejected as inade-

quate an alternative "competipace of technological advance and increased competitive tive safeguards" clause which would have allowed national pressures, are moving towards competition authorities to aver-greater liberalisation. impose conditions on all A number of countries

among them Australia, Brazil, licence holders to prevent Switzerland and Thailand plan legislation to increase • The US said it intended to competition in their telecoms withdraw satellite services markets. Sooth Africa, an from its offer because only observer to the WTO talks. about 10 participants bad guar-anteed US access to their own said on Tuesday it hoped to submit an offer in the near sstellite markets. The EU future.

The economic stakes are high. According to the Washington-based Institute for International Economics, a telecoms accord could save users in rich and poor countries more than \$1,000bn over the next 12 years in lower charges, better service and improved technology.

Foreign investment would also help developing countries raise the \$60bn the World Bank says they need to spend over the next five years to bring their telecoms systems up to scratch.

But a success in telecome would also give a boost to the multilateral trading system by showing that the WTO can effectively negotiate trade lib-eralisation in new domains like services, investment and competition policy.

The postponement of the telecoms talks follows only a partial deal in financial services last year while talks on maritime services, the third set of negotiations left over from the Uruguay Round, look set to founder in June.

WORLD TRADE NEWS DIGEST Brittan set for **Tokyo chip talks**

Sir Leon Brittan, the EU trade commissioner, will discuss trade in semiconductors when he visits Japan with 30 European businessmen next week. Mr Tomio Tsutsumi, vice minister of the Japanese Ministry of International Trade and Industry, said the two sides would discuss European participation in the talks between Japan and the US over the extension of the bilateral semiconductor accord. The US and Japanese governments are currently wrangling over the extension of the bilateral trade agreement, which sets a quota of foreign market share in Japan'a semiconductor market. The accord expires on July 31.

Along with Japan, the EU is opposed to an extension of the agreement, but it is calling for a new semiconductor trade framework which involves Europe. Emiko Terazono, Tokyo

VW to invest in India

Volkswagen, Europe's biggest carmaker, is the latest vehicles Volkswagen, Europe's niggest carmaker, is the latest vencies group to unveil plans for the expanding Indian market, where it intends to establish a joint venture with Eicher Motors. The deal involves cars from VW's Audi and Skoda subsidiaries. Audi plans to introduce its A6 executive saloon, while Skoda, the Czech carmaker, expects to launch its Felicia model by the end of this year. The Skoda models will at first be imported as serve incoded down bits. However the commany has ambitions semi-knocked down kits. However, the company has ambitious plans to raise output from about 100 cars in this year to 60,000 units a year by 2000. Audi has more modest aims for its executive model. Initial production plans for the A6, which will cost about Rs700,000 (\$20,488), envisage output of 6,000 units a year. Industry Staff, London

Greeks to market Tirana centre

DTZ Mihalos of Greece, part of an international consortium of property consultants, has been appointed to market the World Trade Center in Tirana, the Albanian capital. The development by Di Vincenzo Estero of Italy is claimed to be the first large-scala commercial office project in the city.

The 30,000 sq metres development has been designed to cater for companies seeking to establish in Albania. It will be linked to a natwork database linking more than 300 World Trade Centres in other countries and provide occupants with market information, advice on importing/exporting as well as secretarial and translation service

The first accommodation is due to be completed by early 998. Andrew Taylor, Construction Correspond 1998.

An Anglo-Malaysian joint venture will manage the construction of £75m of new facilities, including south-east Asia'a largest covered car park, at Sepang'a new international airport sonth of Kuala Lumpur, Malaysia. The contract has been awarded to SSP-TBV, a joint venture between the project management arm of Tarmac, the UK contractor, and Sepakat Setia Perunding, Malaysian consulting engineers. The new international airport due to open in 1998 in time for the Commonwealth Games will cater initially for 25m passen a year, rising eventually to 80m. Andrew Taylor

Three Swedish companies, Tele6, Telenordia and Banverket, and Danish telecommunications group Tele Danmark will work on a new undersea fibre optic telephone cable link between Denmark and Sweden. The project, due for completion in October 1996, involves sinking a cable with capacity for 30,000 telephone calls between Elsinore, north of Copenhagen and Halsingborg across the narrow straits separating the two countries. Reuter. Cone Reuter Copenhagen

US and Japan agree truce on aviation rights

Source: ITU

abuse.

By Gerard Baker in Tokyo

Japan and the US yesterday agreed to a temporary truce in their dispute over passenger aviation rights between the two countries.

Negotiators from the two sides settled on a short-term settlement "to avoid a battle of. imposing sanctions on each other during the high summer

Japan's senior negotiator at the talks in Washington. The discussions failed to bridge the substantive gap over how. to the dispute The US will allow Japan Airbegin reviewing the passeng

section of their 40-year-old bilateral aviation treaty. Further talks aimed at reaching a lasting settlement are scheduled in Tokyo for June 3 and 4. Under the terms of the truce

season." said Mr Jiru Hanyu, both sides will temporarily seven weekly for a five-week

approve outstanding requests by airlines for new flights that have been deferred because of

lines (JAL) to operate three weekly flights between Tokyo and Kona, Hawaii, from tomorrow until October 26. JAL will also be permitted a rise in the number of flights from Sendai to Honoluln from three to

period beginning tomorrow. In return, Japan will allow United Airlines to double its weekly flight frequency between Los Angeles and Tokyo from the current seven to fourteen for the same fiveweek period, and to fly seven weekly flights from Kansai International Airport in Osaka

claimed this was really an

attempt to hamper competition

with US-based companies plan-ning worldwide satellite-based

There are some reasons to

hope a deal may be easier to

strike next February. Most gov-

ernments, faced with the rapid

mobile telephone systems.

to Seoul until October 26. Mr Hanyu, counsellor for international aviation at the

transport ministry, said the bilateral treaty. The main period of only five weeks for the Sendai-Honoluln and Tokyo-Los Angeles operations represented a form of "hostagetaking", to ensure both sides lived up to commitments made for resuming talks next month. At those discussions the two countries will again try to settle their long-standing dispute, which centres on differing interpretations of the 1952

question is one of "beyond rights" - whereby US airlines are allowed to pick up passen-gers in Japan and fly them on to destinations in Asia. Japan claims the treaty

allows such rights only as secondary to the main US-Japan traffic. But a significant proportion of the US airlines' passengers in Asia now originate in Japan.

Soap smugglers clean up at Lever Brothers' expense

US EU Japar Canada Australia Mexico Brazij Sultzadan As % of world total South Kome Arcentine Rest of Hong Kong Rank 18 India Norway Singspore Turkey Venezuela Poland -15 23 Pakistan

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FINANCIAL TIMES THURSDAY MAY 2 1996

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High tariffs create opportunities for illegal trade, but multinational consumer groups still see prospects for investment in Pakistan

ree trade is a wonderful thing, but not when smugglers are the bene-ficiaries at the expense of legitimate business.

So say Pakistani companies such as Lever Brothers Pakistan, part of the Anglo-Dutch Unliever group, which face fierce competition from illegal traffic in consumer goods. By avading import duties and taxes, smugglers can offer goods at very competitive prices and sharply reduce the sales and profits of local manufacturers.

The lawlessness in neighbouring Afghanistan and in the tribal areas on the Pakistant side of the frontier has made life particularly easy for the smugglers, who trade in everything from cars and fertiliser to tea bags and soap. Afghanistan is in effect a duty-free zone, and the abuse of transit trade arrangements, whereby goods supposedly destined for Afghanistan have been imported through Karachi and eventually diverted back to the Pakistani market, has exacerbated the problem. Take Lux soap, a Unilever brand so universally popular that it can be traded almost like a commodity. A trader can buy a tonne of Lux soap barsin, say, Dubai, Hong Kong or Singapore for about \$1,600, equivalent to Rs57,000; the smuggler'e additional costs for transport, finance and bribing gunmen at roadblocks proba-bly amount to about Rs20,000, making his total cost about RS77,000 a tonne. To make the same Lux soap

in Pakistan, Lever Brothers says it spends about Rs54,000 a tonne. So far so good. But it must also pay an additional Rs37,000 in import duties for its raw materials, sales tax and excisa duty, and it spends Rs4.000 a tonne advertising the brand. That brings its total costs to Rs95,000 a tonne. It is not hard to see why smuggling is profitable. Soap smuggling has eased

because the Pakistani governmant has put a stop to the Afehan transit trade for many categories of imports. But Lever now faces a smuggling problem with another of its products - tea, which is also

1.



A Rawalpindi shopkeeper displays smuggled soft drink cans which carry a higher profit margin than Pepsi produced under

subject to heavy taxes. "Every one of our products is local manufacturers. Pakistani industrialists also complain carrying a huge duty burden." that their companies are taxed says Mr Anthony Crouch. combecause they are easy to tax, while the wealthy landowners mercial director of Lever still pay almost nothing Both Pakistani and foreign because agriculture is largely business executives say the exempt from taxation - and problem is not just the exisbecause most politicians are tence of smugglers, but the landowners. Although the government of fact that the incentives for

them to smuggle are so high. The tax burden on legitimate Ms Benazir Bhutto is taking tentative steps to broaden the companies, they say, is much too heavy because governtax base and ia moving towards a reduction of import ments look at industry more as tariffs in line with internaa source of revenne than of tional trade agreements, it is growth and employment. likely to be several years The import tariff regime is before industry finds its tax not organised as it should be to burden greatly lightened. In the meantime, companies

impose low tariffs on raw materials and high ones on finsuch as Unilever have not ished goods that compete with given up hope. Instead they are.

Brothers Pakistan.

confident this large consumer market - with a population of 130m - will continue to grow. Unflever is planning to invest Rs1.5bn in expanding its food interests, especially ice cream and processed vegetables.

It is also in the throes of rationalisation. A merger is planned between Lever Brothers, in which Unilever has a 70 per cent stake, and Brooke Bond Pakistan, where Unilever has 40 per cent, to create a new company called Unilever Pakistan.

The Unilever parent brought Brooke Bond International in 1984 and the Pakistan merger would be the last of a series of similar deals that have taken place in India, Sri Lanka and elsewhere.

Mr Cronch says there are three motives for the merger. savings from economies of scale: ending competition between two Unilever brands of tea (Lipton tea is sold by Lever); and the creation of a Pakistani group strong enough to implement Unilever's ambitious programme for increasing its presence in the processed food market.

Lever launched Wall's ice cream in Pakistan only a year ago and, encouraged by the response of consumers, is eager to expand. It also wants to move into

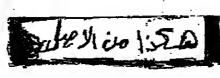
tomato products, such as ketchup, and chilled vegetables for the growing number of urban shoppers. There is a plentiful supply of good quality local produce, but distribution is poor. In four or five years, the company is likely to look at making prepared meat products and fish.

Pakistan, in short, is moving towards a modern consumer society. At present, most of the ice cream consumed is unbranded "kulfi" made by

local artisans, and most people wash their clothes using semiindustrial bar soap rather than the kind of washing powders made by Unilever.

But products such as Lux and Wall's ice cream are making inroads. And there is one good thing about ice cream; it has to be kept cold, which makes it hard to smuggle.

Victor Mallet



NEWS: INTERNATIONAL

World football body faces TV rights row

By Jimmy Burns

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talks

THE leadership of Fifa, world football's governing body, is facing a potential boardroom revolt over its controversial handling of future World Cup merketing and television richts. European members of Fifa's

executive committee are plan-ning to try to force Mr Joseph Blatter, the organisation's general secretary, and Mr Joao Havelange, his Brazilian prestdent, into meking the contracts part of an open end transparent bidding process of a meeting scheduled for the end of the month.

Mr Blatter was hoping the committee would accept unconditionalty his interim report on the negotiations. But it emerged yesterdey that Fifa's powerful European lobby will reject it unless be convinces them that negotiations on the cootracts are being conducted in a fair and open man-

The warning was issued yes-terday on behalf of the EU's nine members by Mr David Will. Fifa's Scottish vice-president, after two leading sports companies claimed they were being deliberately excluded

from any serious discussion of the contracts in contravention of earlier public assurances that there would be an open bidding process. The growing row over the

McCormack's International contracts in recent weeks has Management Group, claims included critical statements of that "preferential treatmont" is the Fifa teadership by two being given to Flfa's long-term marketing agent ISL, and the European Broadcasting Unionother executive members: Mr Jock Warner, president of the American footballing confederted consortium which already etion, and Mr Chung Mong-Joon, the South Koreen has the TV rights for the 1998 World Cup vice-president of Fifa.

In a letter deted April 26 to

Mr Blatter, a copy of which has been made available to the

Financial Times, Mr Eric Dros-

sart, the vice president of Mr

"Whilst I welcome the appar-

IMG's move follows a similar

Yesterday, Mr Will said: "This is an issue that Euroent invitation from Fila to be involved in the hid process for pean committee members feel World Cup rights, there ere very strongty ebout. There should be an open marketing glaring ioconsistencies con-cerning the basis on which the bid and each hid should be rights are being made evail-Judged on its merit." He added: "I am obviously concerned and want to know what's going able...It is difficult to believe that Fifa genuinely wish to consider our offer on a prop-erly competitive basis," Mr on.' Drossart states.

Mr Will is a close ally of Mr Lennart Johansson, the presi-dent of Uefa, Fifa's counterpart protest from Team, the in Europe, who is hoping to succeed Mr Havelange as presi-Lucerne-based marketing arm for the Champions Leegue run dent of Fifa. by Uefa, and within days of

confirmation that Mr Rupert Murdoch's News Corporatioo He was speaking ofter it emerged that Mr Mark McCorwes considering meking a multi-billion dollar bid for the mack had protested to Mr Blatter about the way his initial bid for the television contracts world broadcasting rights for for the World Cup in 2002 had the 2002 and 2006 World Cups. been handled Within Fifa's executive com-

KYRGYZSTAN



Havelange: urged to make bidding process open and fair ACCEPTER

mittee, there is growing concern that Mr Blatter, with the tacit endorsement of Mr Havelange, is reneging on a promise of an open bidding process made to committee members in December. Mr Blatter has told committee members that he is con-

tinuing negotiations with ISL and the EBU-led consortium even though an option on exclusive negotiation rights for the two groups expired at the end of February. The executive committee has

been seeking to reform Fifa's leadership structure, Fifa headquarters were

closed vesterday because of May Day. But last month Mr Blatter wrote to IMG and Team saying that, while it was contunuing negotiations with ISL and the EBU-led consortium, it was inviting proposals from uther "interested parties" on the basis of minimum conditions for the 2002 and 2006 world cups by May 15. Both Team and IMG are

claiming that the deadline they have been given and the unclear way in which the minimum conditions have been laid out have put them at a huge disadvantage io e serious bidding process

Pact will have little effect, say abolition groups UN edges close to accord on landmine restriction

By Frances Williams in Geneva Amputoes

Per 100,000 inhabitants" Negotiators said yesterday they hoped a United Nations fall far short of the outright ban now being urged by many humanitarian organisations and more than 30 governments, the latest being Austra-

Groups campaigning for abolition say the accord will have little impact on the huge toll of civilians killed or maimed by mines, put at 20,000 a year. The UN estimates that some 110m mines have been laid in 64 countries, among the worst affected being Cambodia. Angola, Somalia, Mozambique and Afghanistan.

including China, Russia and India, say they still have a military need for mines to defend their borders. Admitting that the accord

use of non-detectable anti-por sonnel mines and require all mines to be self-destructing and self-deactiviting except in guarded fenced-off minefields. However, to the anger of humanitarian groups, this requirement would not come into force for nine years - a delay insisted on by countries with large stockpiles of non-detectable mines.

The groups also argue that self-destruct and deactivation devices are inherently unrelia-bie, though the draft treaty stipulates that only 1 in 1000 mines should still function after 120 days.

In addition, the revised ireaty would ban the export and transfer of prohibited mines from the date of entry into force, though countries have agreed to make this oper-ative immediately. About two dozen states, recently joined by China, are currently observing a UN moratorium on all or some mine exports.

The treaty would also extend the convention to internal conflicts, put the responsibility for clearing mines on those laying them, and make violations of its provisions a war crime as defined in internationa) law.

The draft ready for approval tomorrow would prohibit the

7.50 PM: MRS DEAN DISCOVERS LIGHTNING HAS KNOCKED HER CHIMNEY POTS OFF.

8.05 PM: OUR BUILDER KNOCKS HER SOCKS OFF.



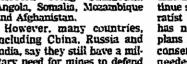
KAZAKHSTAN

Gillian Tett reports on a new role for an old cold war institution

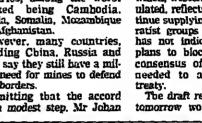
pact to restrict the use of antipersonnel landmines would be 300 agreed tomorrow, despite lastminute objections by Pakistan. 200 The eccord, designed to strengthen a 1980 UN convention on inhumane weapons, 100 will bar or limit the use of certain kinds of mine But th will

Source: ICRC lia. Germany and Britain. Volander of Sweden, chairman

of the negotiations, said yester-day that it would nevertheless, if applied, save "many, many lives



was a modest step. Mr Johan



Pakistan is unhappy with the wording on mine exports which, western diplomats speculated, reflects its wish to continue supplying Kashmiri sepa-ratist groups in India, But it has not indicated whether th plans to block the necessary consensus of the 55 parties needed to amend the 1980

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Victor Hally

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Three years ago some 75,000 Tajiks fied to Afghanistan after e bloody civil war. Though many, like Mr Karimov, have returned, come have been killed and others harassed. Now Mr Karimov has an unlikely champion. Earlier this year the Organisation for Security and Co-operation in Europe asked the local Tajik authorities for a legal review of his case.

villager.

Whether Mr Karimov will win is unclear. But far more is et stake than the pomegranate

For the OSCE's presence is one sign of a broader shift now under wey in the west's involvement in this geo-politically sensitive corner of the former Soviet Union.

In recent months the OSCE has been attempting to re-invent its role. The experiment is still in its early stages. But some diplomats are already wondering if the OSCE, rather than the UN, might be the group best equipped to serve the west in ettempts to contain the region's turbulence.

When the OSCE was set up in 1953, it was billed as a conference on mittary security between the communist bloc and the west. But the collapse of the Soviet Union in 1991 meant that, because it was deprived of its traditional role as e buffer in Europe, some diplomats suspected it would simply fade away.

In late 1994, however, it made a last-ditch ettempt at renaissance. It changed its name - from the Conference for Security and Co-operation and announced that it intended to spread democratic values and act as an "early warning" system for ethnic conflict. Some western diplomets

remained cynical. With e budget of \$30.6m, it has limited resources. And its cold war tradition of giving an equal voice to all members - however shocking their human rights record - fuelled suspicions that it lacked clout.

As one western diplomat says: "The OSCE has usually been so careful not to offend governments that it barely has teeth."

This scepticism was not entirely squashed when the OSCE organised e conference

ر در محمد معد <mark>المیتراند</mark>. در

on regional security in Uzbekir Kandil Karlmov, a stan and the Tajik capital Dushanbe last week. Although shrunken Tajik peas-ant, stood by his partly ruined house in despair. Mr Gancho Ganchev, the OSCE My neighbour will kill me representative in Talikistan, he has already taken half my criticised Tajikistan's demoland," he said, gesturing at the cretic record, the language remained polite - and neither muddy patch where his prized the Tajiks or Uzbeks showed much sign of taking westernpomegranete treee were recently cut down by a fellow style human rights values to heart.

Nevertheless, this public diplomacy is misteading. For the real test of the group's work - and future - now lies not in the bland conferences. but its new self-appointed grassroots work.

One sign of this has been the OSCE's eppointment ~ on e US initiative - as a monitor for etections in Bosnia. However, e second test is e recent request from the UN High Commissioner for Refugees that the OSCE take over its work in Tajikistan.

Since the UNHCR teft the republic last year, the OSCE is now running three field stations which seek to uphold human rights and encourage peace, partly by taking up dis-putes such as Mr Karimov's.

These operations have been surprisingly effective eo far. Indeed the factor that has sometimes been the OSCE's greatest weakness - its principle of consensus - has given it an important edvantage. For the fact that the Tajik government is tiself a member of the OSCE has allowed OSCE offi-cers considerable leverage over local Tajik officials.

the experiment is successful, some officials bops the group could move into other UN-type work in the future.

Meanwhile, continued skirmishes along the Tajik-Alghan horder are casting doubts on the role of Tajikistan'e UN military observers, who ere reported to be costing some \$4m e year.

OSCE officials insist that the organisation is still a long way from assuming any direct role as military observer. However, if the Tajik and Bosnian operations prove successful, the possibility might move on

to the agenda. Few western diplomats want to allow Russia an entirely free hand in the region. But equally few have any faith in the effectiveness of an over-stretched and disillusioned UN es regional policeman.

And with Tajikistan likely to remain turbulent for many years, it it not simply Mr Karimov who has reason to hope that the OSCE's mission turns out to be effective,

Who says lightning never strikes the same place twice? Earlier this year a builder retained by Guardian Direct performed a spirited impression of groase lighting when he arrived at a cottage, which had been damaged in a thunderstorm, only lifteen minutes after the incident was reported.

The amazed owners, who had only signed up with us five days earlier, were delighted when we agreed their claim on the spot, paying all the bills direct. Proof, if proof were needed, that we'll always try to settle your claim in a flash. BETTER INSURANCE FOR THE WORLDLY WISE



NEWS: ASIA-PACIFIC

Japan's vehicle sales fall in April

By Gerard Baker in Tokyo

New vehicle sales in Japan fell in April for the second straight month, according to figures published by the Japan Auto-mobile Dealers' Association yesterday. Registrations of new vehicles dropped 0.1 per cent on a year earlier to 374,405.

The main reason for the fall was a big drop in sales of commercial vehicles. Trucks declined 2.6 per cent to 118,182 units, while buses fell 13.3 per cent to 1,593 units. A slight rise of 1.2 per cent in

sales of passenger vehicles to 254,630 units was not enough to offset the commercial side's slump

Once again, the figures showed the growing Japanese taste for large, imported cars. Of the total, foreign made By Louise Lucas in Hong Kong vehicles made up 9 per cent, at 33,042, a jump of 23.7 per cent The Hong Kong Monetary Authority yesterday urged the from a year before. back proposals for an Asia-specific network of bond clear-

Of the leading Japanese car makers, only two, Honda and Suzuki, reported sales growth. Toyota, the largest, saw new registrations drop 4.9 per cent; Mazda, now controlled by Ford of the US, reported a 0.1 per cent decline. The biggest fall was registered by Isuzu, whose

enormous investment demand. sales dropped 42.9 per cent. Projections by the ADB show Asia needs US\$280bn a year to Car and truck sales had been rising steadily since reaching their low point in the current fund infrastructure needs, or more than \$1,000bn to the year cycle in the summer of 1994. 2000. A big shortfall exists between this and available An association official played down fears of a stalling recovery. "We cannot tell whether funds, desuite the region's high the upward trend until Februsavings rate of over 30 per cent ary has changed or not without and substantial official reserves, estimated at \$600bn seeing sales figures for ons more month," he said. or 40 per cent of world total. of the board of governors of

• Japan's foreign exchange reserves reached another global record of \$205.7bn last month, the finance ministry said yesterday. The monthly increase of \$1.7bn was the thirtieth straight rise, bringing total reserves to a record high for the fifteentb consecutive

But the increase in April was considerably below the average monthly rise in the past two years, reflecting somewhat subdued intervention in foreign currency markets by the Bank of Japan.

tant to raise their share to cover the shortfall and without an accord by donors to replen-The US yesterday rejected demands by China and India ish its coffers, the ADF looks that they be made eligible for likely to run dry this year. the Asian Development Bank's The US, which is in arrears of \$337m to the ADF fund of soft-loan window which extends subsidised loans to \$4.2bn agreed in 1992, rebuffed the demands of China and India, saying the funds should Despite being technically elibe directed to smaller econogible for loans from the Asian

By Edward Luce in Manila

poorer Asian nations.

Asian Development Bank to

ing and settlement systems, as

a means to enhance the appeal

of the region's financial mar-

kets to domestic and overseas

A robust bond market is

seen as pivotal to the region's

At the 29th annual meeting

the ADB in Asia, Mr Joseph

Yam, the Hong Kong Monetary

Authority's chief executive,

drew a parallel with Euroclear,

set up to facilitate book-entry

clearing and settlement of

eurodollar bond transactions,

belping to spur the eurodollar

"An AsiaClear system to

clear Asian and international

honds in the Asian time zone

with reduced settlement risk is

now a distinct possibility," he

said. "Payment systems could

bond market in 1968,

investors.

Development Fund, the two mies such as Cambodia. "I do not believe China and countries have been excluded due to a shortage of donor India should participate in the ADF," Mr Jeffrey Shafer, US funds, largely the consequence Treasury under-secretary, said yesterday. "The US thinks the of arrears run up by the US. East Asian members are reluc-

similarly be linked as a net-

work, hopefully on real time. Asian financial markets would

become a lot more attractive to

investors in and outsids this

reckoned at \$338bn, or 2 per

cent of comparable OECD bond

markets. Efforts to stimulate

the market have taken various

forms; banks sought to create a

"dragon bond" market, but this

Asian-originated and distrib-

tem; fears of bureaucratic and

commercial hurdles meant it

Now, Mr Yam said, domestic

bond clearing systems and tele-

coms technology have devel-

oped to a point where Asia can

have its own regional system

An AsiaClear system would

make resource mobilisation

through financial intermedia-

tion more effective, he said.

"The ADB, as the region's pre-

mier financial institution and

bond issuer, should explore

and support the development

of AsiaClear and other finan-

cial infrastructural networks."

rather than a centralised one.

clearing systems.

never gained ground.

The Asian bond markets are

resources of the ADF should be available to those countries thet do not have the ability to tap capital markets."

US rejects India, China funds claim

But China and India, which are both entitled to the World Bank's soft-loan funding through the International Development Association, said their exclusion was unmerited. US reluctance to honour its debts to the ADF, owing mainly to congressional opposition to foreign aid spending, had led to the exclusion of China and India, diplomats said. "Ws call on the interna-

tional community and the ADB to back our efforts in poverty alleviation, by making ADF resources available to China," Mr Yin Jieyan, head of the Chinese delegation, said.

The US delegation yesterday failed to produce specific pledges on the clearing of its arrears to the ADF before the fund runs out at the end of this year. Other donors, notably leading European countries, said they would not contribute to ADF replenishment before the US paid its debts. Mr Shafer said the ADB

should direct money from net earnings on its market-based loans to boost the next ADF. Bank officials say they would be unwilling to siphon off more than abont \$100m from the ADB's capital flow, which is unlikely to make a real difference to the replenishment.

Mr Shafer said the Clinton administration would try to persuade Congress it was to the country's commercial advantage to pay the arrears, due to the benefits of "reflows" to the US from ADF procurement contracts.

HK call to back | Thai inflation rate fall special Asia bond eases fears on economy clearing network

By Ted Bardacke

Thailand's inflation rate has registered its first steep decline in more than a year, with con-sumer prices in April just 6.9 per cent higher than a year earlier, the Ministry of Commerce said yesterday. Until April's decline in the

inflation rate, Thai consumer prices had risen at an annual rate of more than 7 per cent for four straight months. This has fuelled worries that the government's attempts to slow the economy were failing and forcing the central bank to keep interest rates high.

uted paper largely ended up with central banks. Governments such as Hong Kong have sought to develop benchmarks The decline in the inflation rate reinforces other indicators showing a cooling of the econand install debt securities omy - private investment, While the idea of a regional manufacturing activity and bond clearing system has been commercial credit growth have mooted in the past, it was iniall declined throughout 1996. tially seen as a centralised sys-However, analysts do not expect an interest rate cut

By Amal Jayasinghe

Bank said yesterday.

Foreign investor interest in Sri

Lanka fell sharply last year

because of the Mexican crisis

and the domestic drag of ths

Tamil separatist war, but buoy-

ant export demand still

allowed the economy to grow

by 5.5 per cent, the Central

in Colombo

Annual % change in CPI 7.5 . . . 70-Sec. 1. 6.5 ----6.0 5.5 5.0 -

1995

until the latter half of the year,

as the central bank is likely to

wait for several months of

decline before making a poten-

April's inflation rate is still

tially expansionary move.

96

45

Source: Datestream

Thailand inflation

cent in March and 7.2 per cent a year ago. Yet as fears recede on the cost side, new concerns are emerging on the demand side. Thai labour unions used yesterday's May Day holiday to submit demands for a 15 per cent increase in the minimum wage, which now stands at Bt145 (\$5.70), np from Bt135 last year. A committee made up of representatives of government, labour and employers will decide on the amount of

tion was led by falling prices for fresh fruit and vegetables, indicating thet the effects of last year's record flooding throughout the country may finally be receding. The rate of wholesale price

Last month's decline in infla-

rises fell further - up 6.2 per cent in April from the same month last year, compared with annual rates of 6.7 per

significantly higher than the central bank's overall annual (PTI) reported. target of 4.9 per cent for 1996. the rise by the end of June. Sri Lanka growth at 5.5%

> In a preliminary review of living standard in South Asia. the economy, the bank said the country needed to attract more foreign and local private capital. The government's privatisation programme should be accelerated in a bid to achieve non-inflationary growth.

"There is an urgent need to increase the rate of capital formation, without which the country could weaken its past achievements in human devel-

opment," the bank said. Estimated GDP growth rate was marginally lower than the 5.6 per cent achieved in 1994, but per capita income rose from \$656 to \$713 last year, giving Sri Lanka the highest the projected 7.7 per cent.

The bank said the country's moderate growth was led by exports, which benefited from a 7.5 per cent depreciation of the Sri Lankan rupee against the US dollar and favourable prices for the country's main

export commodity, tea. The bndget deficit was 8.4 per cent of GDP against 10 per cent in 1994; the balance of payments current account deficit narrowed to 4.2 per cent of GDP from 6.5 per cent. The fig-ures were better than forecast by private analysts, but the 11.5 per cent inflation rate at the end of 1995 was worse than

ASIA-PACIFIC NEWS DIGEST China police halt May Day protest

FINANCIAL TIMES THURSDAY MAY 2 1996

وسادر العدد مدان وروار

Chinese police broke up an International Labour Day demonstration yesterday and detained several people after Beijing vendors protested at alleged seizure of their goods. More than 12 police grabbed protesters and pushed onlookers away from the demonstration outside a market in east Beijing. Stallholders said more than 100 vendors had been demonstrating outside the market and at government and police offices elsewhere in the capital.

Over 150 clothes vendors had had all their stock seized and had been locked out since. Vendors blamed the market's management for the seizure. Appeals to police had met with no response. "Today is Labour Day. They are very angry and

they need jobs," another protester said. The stallholders said they had invested their savings to build the Baiyon Clothing Wholesale Market, expecting to keep stalls there for 12 years, but had been told to leave after only one. Unauthorised demonstrations are illegal in China, and police usually clamp down quickly on any signs of labour Reuter, Beimo unrest.

Food warning for Asian nations

Asia, already home to over 500m malnourished people, will have a harder time finding food as many countries focus on industrial growth instead of agriculture, non-governmental groups said yesterday. At a two-day meeting to draft a regional platform ahead of the World Food Summit in November, Mr Obaidullah Khan, regional representative for the UN Food and Agriculture Organisation, said that while global agricultural output was keeping up with population growth, the distribution was not equal; poorer countries were not receiving their share.

"The FAO projects that through 2010 food production will grow but at a much slower pace. The food security situation will be more fragile than before. Many self-sufficient countries will become food importers. As lower income nations are forced to buy more food from abroad, they will have a harder time paying food bills." Reuter, Banakok

Indian state governor quits

Mr Shiv Shankar, governor of the south Indian state of Kerala, resigned yesterday, following allegations of corruption against him by India's top government lawyer. Mr Dipankar Gupta, solicitor-general, told the Supreme Court charges were ready to be laid against Mr Shankar and Mr Motila Vora, governor of Uttar Pradesh, both senior members of Prime Minister P V Narasimha Rao's Congress Party, the Press Trust of India

"Investigations against both these persons are complete and the only impediment in proceeding further to file substantial charge sheets against them is the immunity enjoyed by them under Article 361 of the Constitution." Mr Gupta said. Mr Shankar faxed his resignation to President Shankar Dayal Sharma saying he was innocent and would fight to clear his name, PTI said. Mr Vora said in Lucknow he was not . aware of any moves egainst him in Delhi. India is in the midst of general elections. Mr Vora and Mr Shankar were both appointed to their positions by Mr Rao. Reuter, Delhi

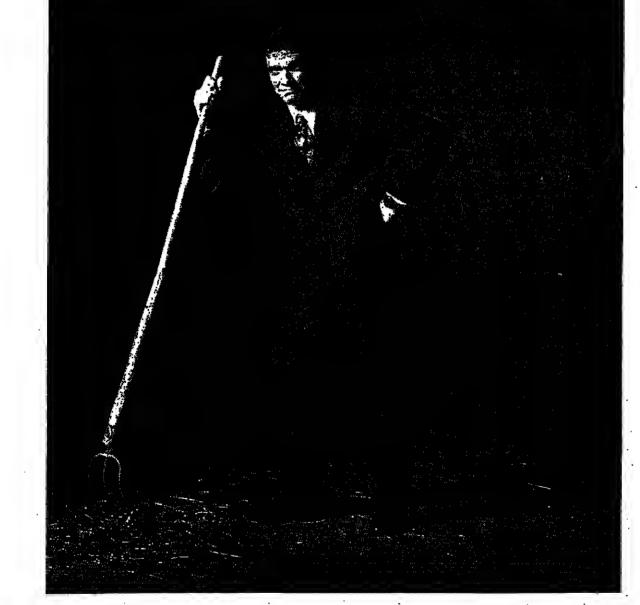
HK talks tough to Beijing

The British colonial administration in Hong Kong will refuse to co-operate with a legislature Beijing plans to install in the territory, Ms Anson Chan, the island's chief secretary, said yesterday. She had told China's top official on Hong Kong affairs that the administration would not belp the provisional appointed legislature Beijing wants to install when the territory reverts to Chinese sovereignty in July 1997.

÷,

"The clear and consistent position of the Hong Kong and British governments is that such a body is neither necessary nor desirable," Mrs Chan told the Hong Kong Legislative Council, which Beijing has promised to scrap. The British side maintains Hong Kong lawmakers elected last September should serve their full four-year term until 1999. But Beijing Reuter, Hong Kong has refused.

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L-Bank is the bank of the Stete of Badco-Württemberg, an economic powerhouse of a state, eveo by German standards. The wealth of hlue-chip corporations based io Baden-Württemberg includes names that any siste would be proud to call its own. The close ties hetweeo bank and state make for effective synergies. Baden-Württemberg is

the force that underpins the high credit quality, well known around the brings us back to those bull markets. financial world. In return, as state development agency, L-Bank essists the state with its public sector commitmeots - targeted infrastructural

improvements, promotion of trade and industry, funding for residential con- structioo programs and family support, to name but a few. Oh, and the promo- Landeskreditbank Baden-Württemberg

tioo of agriculture, of course, Which L-Bank, Schlossplatz 10/12, D-76113 Karlsruhe, Germaoy. Telephone INT 721/150-0.

₿L-BAI

Seoul fights burden of bad loans

S Korea wishes to avoid a Japan-style bank crisis, writes John Burton

South Korean banks: cleaning up the balance sheet

S onth Korea is viewing with alarm the banking O crisis in Japan, fearing its own banking system may be engulfed by similar tronbles.

Seoul now appears set on cleaning up the balance sheets of the nation's 25 commercial banks as Korea prepares to join the Organisation for Eco-nomic Co-operation and Development this year.

Failure to do so could threaten the stability of the banking industry when it faces increased competition due to the wider market access under OECD guidelines.

In the past week, Seoul has introduced measures to rescue the banks from years of poor earnings and the burden of bad loans. The new banking policy includes easing restrictions on bank loans to the hig industrial groups, or chaebol. The bank credit limits were meant to curb the economic dominance of the *chaebol*, but instead it left banks with a growing dependence on the risky small business sector, which is suffering a record number of bankruptcies.

The government also cut the reserve requirement ratio, which is the average proportion of total deposits banks must place as reserves with the central bank, in an effort to boost bank profits.

This followed a 18 per cent fall in combined net earnings to Won998bn (\$1.28bn) last year as the sluggish performance of the Seoul bourse led to a sharp drop in securities trading gains, which had become a main source of income for the banks

Some of the country's leading banks would have gone into the red last year if the government had not decided to reduce their required reserves for stock investment losses to 30 per cent from 100 per cent. Such accounting tricks, however, can not disguise the fundamental structural weaknesses of the banking system. The main problem is the large amount of dud industrial loans that the banks have accumulated in the last decade. They were forced by the gov-

Amount of bad loans of country \$ 25 connoercial banks (Won '000bh) Bad loons as a % of total loans 3.0 . 25 al station 20 1.0 10.5 65 1990 91 92 93. ÷.

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small and large corporate bor-

week announced that its previ-

will only be applied to the 10

However, the banks still face

biggest groups from June.

The president of South Korea's largest commercial bank has been arrested for alleg-edly accepting kickbacks in return for providing loans to an ailing construction company, writes John Burton. The case illustrates how strict government

restrictions on bank lending have resulted in companies bribing bank officials to obtain credit. Mr Rhee Chul-so, the president of Korea First Bank, was arrested early yesterday morn-ing for allegedly receiving Won250m in bribes

est capital to strategic indus-trial projects that in some the government stopped interfering and allowed the banks cases failed to repaid the loans. to lend to strong corporate bor-Combined non-performing rowers instead of propping up sbakey small companies," said Mr John Wadle, a analyst for loans for the 25 banks amounted to Won2,300bn last year, or 0.09 per cent of total lending, according to the Office of Bank Supervision. J.P. Morgan Securities in Hong Kong. Officials have now come to

same conclusion. In an attempt But most analysts believe the actual figure is close to to strike a balance between Won10,000bn since many trourowers, the government last bled loans, mostly related to the state directed rescue of the troubled shipbuilding and con-struction industries in the midous policy of limiting bank credits to the 30 largest chaebol 1980s, are not counted in the government's estimate of bad oans.

In spite of their troubles a a challenge attracting business decade ago, the chaebol remain from the large industrial the most creditworthy borrowgroups. They are increasingly ers in Korea. But the banks relying on direct financing from the stock and bond marhave been under state pressure to lend to the underdeveloped kets and borrowing abroad, small business sector, while where interest rates are much curbing loans to the congionlower than in Korea. The governments's decision erates. Chaebol loans accounted for only 13.9 per to cut the reserve requirement is expected to add Won300bn to cent of total bank lending last bank profits this year. But the year,

"Korean banks are a potenmeasure is also a mixed blesstial disaster area, but the probing since it is expected to lower lem could be easily solved if interest rates that threatened

for providing Won113hn in loans to the Hyosan construction group in 1993 and 1994. Hyosan had been unable to obtain bank loans for the construction of tourist facilities because of a law banning credit for such projects unless they are located in government designated tourist areas.

Prosecutors alleged that Mr Chang Jang-son, the Hyosan chairman, paid Mr Rhee to acquire capital for the construction of a ski resort and condominiums and the purchase of two hotels.

> to squeeze lending margins. In addition, the central bank is phasing out low interest policy loans to commercial banks that enabled them to reap healthy interest margins when lending to small businesses.

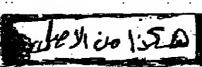
The banks are hoping that lower interest rates will result in higher loan volumes that will guarantee continned growth in interest income, up 28 per cent last year.

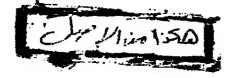
The next likely stage in the government's programme to rehabilitate the hanking sector is to encourage mergers thet would lead to cuts in their bloated workforce and improve their mainly inefficient

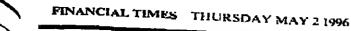
operations. Mr Rha Woong bae, the deputy prime minister for economic affairs, revealed this week that the government will soon propose tax incentives and other financial aid to

encourage such mergers. Bigger banks and other financial organisations would be better able to cope with changing market conditions resulting from financial liber alisation, he explained.

ernment to provide low-inter-







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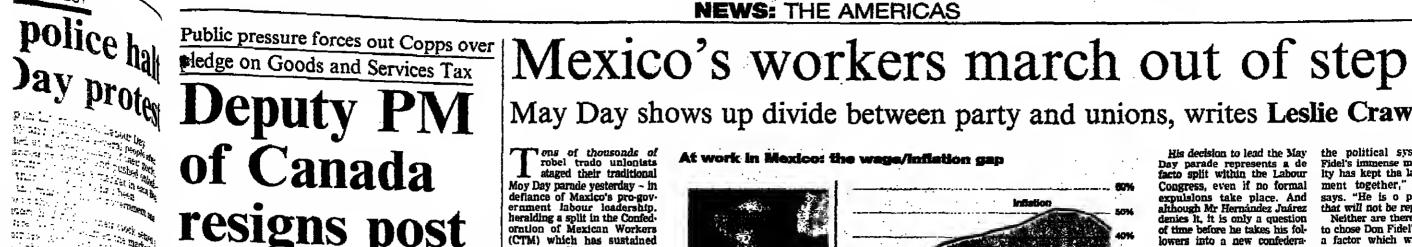
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ng for Asian nation

e governor quits

tough to Beijing

NEWS: THE AMERICAS



levy.

GST.

the cabinet.

in office.

By Bernard Simon in Toronto

in the second seco Ms Sheila Copps, Canada's deputy prime minister, resigned her cabinet post and parliamentary seat yesterday after a week of unrelenting public pressure to honour an election pledge to quit if the government failed to replace the Goods and Services Tax. The 7 per cent GST was introduced by the former Pro-

gressive Conservative government in January 1991 as part of wide-ranging tax reforms. While it was generally wel-

comed hy the husiness community, the GST has turned out to be a headache for politicians of all stripes. Consumers' disllke of the

GST, which replaced a less visihle manufacturers sales tax. contributed to the downfall of the Conservatives in the 1993 poli.

The Liberals' election manifesto included a pledge to replace the GST with a "fairer" tax.

Ms Copps, who is also the heritage minister in charge of cultural policy, vowed in the run-up to the 1993 general election that she would resign if her party failed to replace the unpopular value added tax.

However, numerous efforts to find an alternative have proved fruitless.

Mr Paul Martin, finance minister, finally acknowledged last week that, after examining at least 20 other options, the government made a mistake "in thinking we could bring in a completely different tax without undue economic distortion and within a reasonable time period".

Ms Copps, who has a reputation for being outspoken, initially resisted calls to stick to her promise to resign. She said last week that "when you're on the campaign

trail, you get excited and sometimes you shoot from the hip". separatism.

May Day shows up divide between party and unions, writes Leslie Crawford ons of thousonds of robel trado unionists ataged their traditional Moy Day parade yesterday ~ in defiance of Maxico's pro-govresigns post ernment labour loadership, heralding a split in the Confed-oration of Mexican Workers (CTM) which has sustained Mexico's ruling party for six

deeadas. However, her excuses only University lecturers and elecfuelled public protests. The Globe and Mail newspaper triclans, telephone workars and civil servants, pilots and reprinted her quotes every day this week on its editorial page bus drivers, marched past the empty balcony of the 16th cen-tury National Poloce, where Mexican presidents once lorded under the headline "Resign" Ms Copps said yesterday that she would contest the forthover a ceremony thot reafcoming hy election in her firmed the labour movement's southern Ontario constituency unswerving loyalty to tha Institutional Ravolutionary Another Liberal MP was Party (PRI). ejected from the party caucus last week after voting against the federal hudget on tha That loyalty is gone, shat-

tered by the country's eco-nomic crisis and e labour leadgrounds that It failed to take action on the GST. Faced with the difficulty of ership discredited by Its close ties to the government. For the second year in o row. replacing the GST, the government has prodded the 10 prov-Mr Fidol Velazquez, the 96-

inces to blend their disparate year-old patriarch who has led sales taxes with it to create a the CTM for more than half a uniform nationwide 15 per cent century, decreed that the offcial lahour movement would Quehec has already harmon not march on May 1. Wishing to spare President Ernesto Zedillo the full hlast of iabour ised its sales tax with the GST. and Mr Martin announced last week that three small Atlantic discontent, Mr Velazquez chose

provinces would come into the to staga a smaller, well-hefold next year. The governbaved event indoors, in which ment has agreed to pay the he and Mr Zedillo repeated the three Atlantic provinces C\$1hn tired slogans of the 1910 Mexi-(US\$734m) over the next four can Revolution. years to compensate for lost There were no May Day revenues as they align their marches last year, as most sales tax systems with the labour unions, reeling from the

shock of the devaluation of the peso, chose to rally around But most other provinces remain wary of being tarred "Don Fidel", as the Mexican patriarch is respectfully

with the GST brush. While the furore over Ms Copps' promisa has embarrassed the Liberals, her resignation is likely to contain the political damage to prime min-ister Jean Chrétien. Ms Copps' influence on overall governmeet policy has been limited,

despite her senior position in By Imogen Mark in Sentiago

May Day celebrations In Chile However, the government's yesterday were overshadowed by a dispute between the Socialist and climbdown over the GST is an indication that the second half of the Liberals' five-year man-Christian Democrat contenders for date is likely to he more turbuthe leadership of the CUT union conlent than their first two years federation. The Christian Democrats lost the presidency of the CUT executive com-

Mr Chrétien also faces other difficult issues, notably Quebec mittee last week after holding it for more than a decade, even though

计算法分词 网络小小小小科 建立机构 网络网络小科学师 医网络 星星 网络布尔人姓氏马尔人

their candidate, Ms Maria Rozas, won the largest number of delegates in the elections in mid-April.

Mr Roberto Alarcon, the Socialist candidate, was elected instead with the support of Communist party delegate

Ms Rozas and the other Christian Democrat unionists are now refusing to take part in the new executive unless there is an agreement at least to share the presidency.

The outright winners in the new CUT are the Communists, who saw their share of the vote increase by almost 50 per cent to hring them in third with 13 seats, after the Socialists, with 15 seats, and the Christian Democrats with 16.

The Communists, who are outside the government coalition in which Christian Democrats and Socialists are the main partners, have been gaining strength in the unions in the

past couple of years at the expense of workforce. However, it has a symthe government parties, They now control the two biggest unions, the teachers and the public health workers, who are the mainstay of the CUT.

For the government, it will mean a tougher relationship with a more hostile labour organisation.

The CUT represents only about half the unionised workforce, which in turn is only 15 per cent of the 5m

has waned with his ailing health. He has lost two important political battles this year. He failed to persuade the government to Index wages to inflation, or to prevent price increases in basic foodstuffs. In April, when the minimum wage was raised by 12 per cent to 22 pesos (\$2.90) a day, gov-

The split worries the govern-

expires. But his frequent hospi-

believe he will die in office.

unrest in times of crisis.

Mexico's internal trade and the US, began on Monday.

ers is standing in the way of the privotisation of stateowned petrochemicol plants, writing angry letters to every emhassy in Mexico City to pounded the disarray in the labour movement. He is only due to step down in 1998, when Without the co-operation of his current six-year term Mexico's labour movement, the task of introducing further eco-nomic reforms will be more of talisations have led many to His departure one way or the an uphili struggle for the govother will create a vacuum in ernment.

bolic importance as a spokesman for

the labour movement which the gov-

ernment until now has helped to

However, a sign of the new rela-

tionship came this week when the

government announced it would not be consulting with the CUT, as it has

always done before, on the annual

increase of the minimum wage.

Chile union confederation leadership row flares

Can you light

Natural ras - affordable safe and available - is an

maintain.

His decision to lead the May the political system. "Don Fidel's immense moral author-ity has kept the labour move-Day parade represents a de facto split within the Labour ment together," Mr Millán Congress, even if no formal says. "He is o phenomenon expulsions take place. And that will not be repeated." although Mr Hernandez Juárez Neither are there clear rules denies It, it is only a question to chose Don Fidel's successor. of time before he takes his fola factor which will intensify lowers into a new confederation that will rival the CTM.

the struggle for control over the CTM and its 5m members. A period of labour strifa is expected to follow. "The most immediate conse-In theory, three deputies, aged 83, 77 and 61, stand in the quence of a split in the labour line of soccession, but they form part of the gerontocracy movement will be a wave of which is destined to expire strike action, as rival labour

leaders wrestle for power," pre-dicts Mr Juan Millán, a CTM leader who was appointed secwith Don Fidel. Mr Millan, who is considered the CTM's chief ideologist and retary-general of the PRI last is 53, says he is "too young" to be considered for the job.

The government is expected ment, which has relied on Don to play a mediating role in the Fidel to keep a lid on labour succession, in the hope of perpetuating traditional arrange-But Don Fidel's influance.

ments. There are signs, however, that some unions are not prepared to be as docile as in the past. The teachers' union is threatening to strike in May. while a partial stoppage of road haulage operators, who transport 80 per cent of

almost all overland exports to ernment-controlled prices for Elsewhere, the vociferous union of petrochemical workmilk and maize tortillas were increased hy 30 and 27 per cent respectively. Don Fidel's refusal to designate an heir-apparent has com-

warn off foreign investors.



Patriarchal union leadin Fidel Velazquist: ting to shall the president

This year, however, Mexico's rgest trade unions have broken away from the CTM fold. With the recession continuing to bite into jobs and real wages, with pay settlements overaging only half the rate of inflation, the rebel uniona believe it is time to end the labour movement's historic allegiance to the government. The rebel unionists, led by

New Trade Unionism", which was joined hy clectricians, pilots, teachers, transport workers, social security unions, bank employees and some car industry unions. The Forum wants a naw Lahour Code to emancipate Mexico's labour movement from the tutelary authority of

ernment posts. And in the stats sector, they grow rich by government. At present, all union elections must he auctioning jobs and running their own private businesses,

With the recession continuing to bite into jobs and real wages, rebel unions believe it is time to end the labour movement's historic allegiance to the government

Mr Francisco Hernández endorsed by the labour ministry, while "independent" trade unions find it almost impossi-Juárez, the telephone workers' leader, have been threatened ble to obtain official registrawith expulsion from the Labour Congress, an umbrella tion. The government also has group which unites tha CTM the power to declare whether and smaller pro-government strikes are legal or not. labour federations. Earlier this yaar, Mr Hernández Juárez dom of association, against the launchad the "Forum for a present practice of the closed

which are allowed to bid for public contracts. "Mexico's labour movement was designed for a country which no longer exists." says Mr Hernández Juárez. "It is too

subservient [to government], The Forum advocates freeand too reliant on corporatist structures. We have to change with the rest of the country."

Jan 36 Mer shop. It wants to clean out corruption within its own unions, and abolish the ties of patronage which bond union bosses to the PRI government, Loyal lahour leaders ere often rewarded with governorships. senate seats and lucrative gov-

20%



up the sky without clouding the air?

increasingly popular choice for driving turbines that generate electrical power all over the world. Although it burns relatively cleanly, combustion does produce nitrogen oxide, implicated in acid rain. Abatement techniques have reduced

emissions, but heightened awareness among the industrial nations continues to generate tighter legislative controls and the development of ecologically-sound power plants.

Conventional methods of controlling emissions are costly and dampen efficiency. However, ABB research has now developed a way to burn them nff. It is a total solution, reducing pullutants while maintaining efficiency, thus consuming less fossil fuel. ABB has installed its innavative "EV-burner" in the Midland Cogeoeratian Venture, a joint project to produce power for the Dow Chemical Company and the State of Michigan, USA. At full power load, this plant is now producing emission levels well below the world's most stringent requirements.

As a leader in electrical engineering for industry and transportation, and in the generation, transmission and distribution of power, ABB is committed in industrial and ecological efficiency warldwide. We transfer know-how across burders with ease. But in each couotry, ABB operations are local and flexible. That means we can help our customers respond swiftly and surely to technological challenges which stretch the limits of the passible. Like burning gas without chuding the sky,

Yes, you can.



er Services Center, P.O. Box 822, CH-8021 Zurich

NEWS: UK

Air force to withdraw from Germany

By Bernard Gray, Defence Correspondent

8

The Royal Air Force is to leave Germany, ending a presence on the mainland of Europe which has lasted since tha end of the second world war. The withdrawal marks a further decline in the level of foreign forces in Germany and another stage in the transformation of Nato from central European cold war warrior to mobile crisis reaction force. Under the plan, announced

in the annual UK defence

etrike fighter squadrons will move to bases in Britain. The last British presence m Germany will be provided by the army which has 24,000 troops in one armoured division and an artillery brigade. Mr Michael Portillo, the defence secretary, insisted that the RAF's departure was not a lessening of Britain'e commitment to Nato, and that the

same aircraft would be available from Britain for Nato operations. However, he said that

white paper yesterday, the last British air base in Germany, Britain had to react to the

RAF Brüggen, will close in changed strategic circum-2002. Its four Tornado GR1 stances, and that basing the aircraft in the UK would produce savings estimated at £25m (\$37.75m) a year.

Mr Portillo added that the RAF has had problems training in Germany since the fall of the Berlin Wall. in 1990 Germany curtailed low flying, which meant that the RAF Tornados etationed there had to cross the North Sea to Scotland to train. At its peak in 1985 Britain

had 12,000 RAF personnel in Germany on four bases with over 120 combat aircraft. Britain's total presence in Germany will have fallen from Nato is also working on the a peak of 71,000 a decade ago to idea of Combined Joint Task Forces, which would allow just more than 20,000 by the some Nato members to use alliturn of the century. This mirrors the withdrawal of other ance equipment without all of Nato forces with the US cmt-Nato's members becoming ting its troop numbers from involved The cold war organisation is 300,000 to under 100,000 over

the same period.

evolving in other ways too. Nato planners say that with France is moving closer to re-Russia no longer a threat. Nato joining the Nato military strucmust adapt to respond to more tures and many central and varied crises such as the invaeastern European countries sion of Kuwait and the war in wish to join the alliance. Bosnia. It has established a

Any expansion of Nato is Rapid Reaction Corps, run by likely to change the nature of the UK, which was, for examthe alliance further and mean ple, given the job of running the ground forces in Bosnia. that it will have to be increasingly flexible if it is to survive.

UK defence equipment programme 1996-97



By Bernard Gray, Defence Correspondent

Mr Michael Portillo, the defence secretary, urged the US to open its markets to European defence equipment if Britain was to continue to resist continental calls for US equipment to be excluded from Europe. Introducing the annual

defence white paper Mr Por-tillo emphasised the amount of equipment Britain had bought from the US in the past two years. The UK has spent £2.5bn (\$3.8bn) on 67 Apache tankbusting helicopters, almost £1bn on 25 C-130J Hercules transport aircraft, and has bought 14 Chinook heavy-lift transport helicopters, Tomahawk cruise missiles and Paveway III laser guided bombs, all from the US.

If the UK was to continue to

By Charles Batchelor,

Transport Correspondent

While Mr Robert Horton, the

chairman of Railtrack, was in

Boston yesterday drumming

up interest among US institu-

tions for the company's sale

on May 20, the government

announced thet it expected the

company to float on the stock

market for between £1.75bn

Shares in the company, which has taken over British

Rail's track, stations and sig-

(\$2.64ba) and £1.95ba.

By John Kampfner

Conservative party.

at Westminster

defence equipment competiequipment for our forces at the st value for money, and we tions in future, the Pentagon must "operate a two-way street", insisted Mr Portillo. will make our decisions on the basis of all the factors, of which industrial concerns is The UK is pressing the US to buy the BAe-Hughes Asraam one component," he said. short range air-to-air missile, All of those competitions the GEC-Marconi Tiald airseem to remain on course, craft-mounted laser bomb according to the white paper published yesterday and most aimer, the Shorts StarStreak high-velocity missile and field have strong US as well as

guns from Royal Ordnance or VSEL. European contenders. Mr Paul Kaminski, the Penthat the MoD was likely to tagon undersecretary for acquidecide on a £2.5bn replacement

Share price expectation

for Railtrack announced

the amount of investor inter-

just before the listing of the

company's shares on the Lon-

The government opted for a

cautious valuation of the com-

pany's shares to spite of a last-

minute flood of registrations

from private UK investors

keen to qualify for the sub-

stantial discounts and bonnses

which are on offer. A total of

1.9m small investors have reg-

City of London analysts said

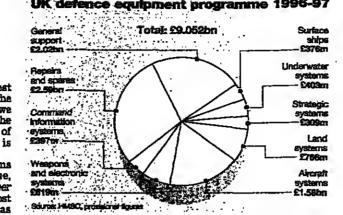
istered with a "share shop".

don stock market.

will not be decided until

sition, has commissioned for the Nimrod maritime patrol studies to determine which aircraft by the summer. Two European programmes the US programmes for £650m of airmight consider. aunched cruise missiles and However, Mr James Arbuth-\$700m of air-launched anti-tank not, the UK procurement min-

missiles are also likely to be ister, dismissed the idea thet decided before parliament rises in July. A third programme for such warnings meant that the UK would automatically bny £800m of long range missiles for the Eurofighter is likely to European or British in its pro-curement competitions. We be decided early next year.



Mr Arbnthnot confirmed Mr Portillo stressed that co-operation with other European countries was increasing. Difficulties between Britain and Germany over the share of work on the four-nation £35hn Eurofighter project have been resolved, and the MoD expects to place contracts for the Eurofighter production tooling shortly. The UK has also teamed with France and Italy to develop a new air-defence frigate in a programme worth

about £7hm. Agreement for the UK to work with France and Germany on a new "battlefield taxi" would lead to the UK joining the nascent Franco-German arms agency.

However, the white paper said thet the UK was working towards rejoining the programme for the Future Large Aircraft European transporter, but with continental commit ment weakening, no date had been set.

Investment in chemicals delayed

By Jenny Luesby In London

the opposition Labour party's Increased economic uncertainty prompted chemical companies to delay up to a fifth of their investment in the Mr David Myrddin-Evans, an analyst at Kleinwort Benson Securities, said: "The share UK last year, but most intend to catch up this year, triggerhas been heavily discounted because of political woring a 14 per cent increase in ries... the valuation is in line capital spending to £2.35bn with the City's expectations although the yield is at the top (\$3.54bn).

Most of the increase will go into bulk chemical production in the north-east, where the Department of Trade and Industry is promoting Teesside

snpra-national anthority is

unsustainable for the foresee-

able future," Mr Rifkind told

Clarke, the chancellor, said

yesterday in evidence to the

Treasury select committee.

that opponents of a single

European currency had tried

the build the idea up into a

"giant political project" for

Mr Clarke stuck scrupn-

lously to the government's

agreed policy on the single cur-

their own purposes.

Meanwhile Mr Kenneth

the European Policy Forum.

2200m investment by DuPont and £155m by Imperial Chemical Industries. For the chemical industry as a whole, UK investment rose by 2.8 per cent last year, to £1.99bb. This was the first rise since 1991.

But companies surveyed by the Chemicals Industries Association - responsible for more than half the investment expected to invest 20 per cent more in the UK than in 1994. but invested 2.5 per cent less.

They blamed industry restructuring - which has seen

Picture of stagnating industry grows

By Graham Bowley, onomics Staff

Britain's mannfacturers yesterday reported the first fall in factory ootput for 3% years last month as companies suffered the biggest decline in new orders since September 1992 The latest survey of industry

by the Chartered Institute of Purchasing & Supply added to the gloom surrounding British manufacturing, prompting further speculation in the City of London that interest rates might fall again soon.

However, on the foreign exchanges, the pound fell to a two-year low against the dol-lar, dne mainly to anxiety ahead of today's local elections in which the government is expected to suffer heavy losses. The pound closed in London at \$1.497 against the dollar and at DM2.295 against the D-Mark.

Analysts believe the chancellor of the exchequer will now be under intense pressure to cut interest rates to engineer faster growth and restore the government's standing in the

opinion polls. The institute's measure of price pressures fell to the lowest level since the survey began in 1991 as manufacturers cut prices for the sixth consecutive month.

Mr Alex Garrard, UK economist at UBS, said: "The chancellor now has plenty of ammunition to push for a further rate cut, with widespread losses expected in the local elections fuelling backbench pressure on the chancellor to deliver." One glimmer of light was provided by demand for consumer goods, which remained buoyant - causing a rise in output in the consumer goods sector.

But this was more than offset by declines in orders for investment and intermediate goods in both the home market and those outside the UK.

This was another stark illustration of the widening gulf between the consumer side of the economy, where activity appears to be strengthening. and industry, which seems to be stagnating.

Separate figures yesterday from the Bank of England provided more evidence of rising consumer demand. Net consumer borrowing grew by a seasonally adjusted £700m (\$1:01bn) in March - more than the City had expected and con-

UK NEWS DIGEST Euro'96 ticket sales shortfall

Almost a quarter of the tickets for Euro 96, the European Championship football tournament have yet to be sold just

over a month before the competition starts. The championship, to be held in eight English cities in June, is the biggest sporting event in the UK since the 1966 World Cup in 1966. But interest is so low thet tickets are still available for the quarter and semi final games at Wembley, and for Italy's three group games. The executive said that between 1m and 1.1m tickets have been sold from a total of nearly 1.4m.

The shortfall has occurred partly because English football fans are busy following the battle for the domestic league title. Also, many of the 16 participating teams are bringing few fans and will attract few locals. None of the five eastern European sides - Croatia, Russia, Bulgaria, the Czech Repubhic and Romania - have taken up their quota of 7,000 tickets per match. "That was expected," the FA said. Croatia has taken just 2,000 tickets in total for its three group matches. Denmark, with 12,000 tickets per match, and Turkey, with 11,000, have exceeded their quotas, taking more than socces giants Italy and Germany. The FA also let Switzerland exceed its quota. Simon Kuper, London

Accounting proposals floated

The Accounting Standards Board yesterday issued discussion papers on two issues - earnings per share and segmental reporting - in an effort to strengthen its hand in forthcoming discussions at an international level. The board wants to gather UK views on the two issues which are the subject of draft proposals from the International Accounting Standards Committee and the US Financial Accounting Standards Board. Sir David Tweedie, chairman of the board, said that "comments we receive should help us reflect UK views in interna tional discussions and ... determine whether the current UK requirements should be amended". The issues in the earnings per share paper are the calculation of diluted earnings per share and disclosure requirements. The paper on segmental reporting looks at the differences between the US and IASC By Jim Kelly, Accountancy Correspondent epproach.

Auditors offer liability deal

Auditors yesterday offered to give a wider range of assurances about companies - including whether material fraud might be present - if the government would agree to limit auditors' legal liability. The Institute of Chartered Accountants in England and Wales said yesterday the idea was "an offer on the table" for the Department of Trade and Industry.

In return for the assurances to shareholders, auditors want the DTI to reform the law of joint and several liability, for a wide range of professions, and replace it with a form of proportional liability. Accountants, and many other professionals, complain that under the existing law they can end up paying all the damages in a case when others, often uninsured, are more to blame. Jim Kelly

Higher profits forecast

Chatset, the independent Lloyd's analyst, yes LLOYD'S terday said it expected the insurance market to report a profit of about £1.05bn when results for 1993 are unveiled later this year under Lloyd's three-year accounting system. The figure was higher than earlier Chatset forecasts and highlighted the turnaround in Lloyd's profitability after losses of more than £8bn reported in recent

Separately, insurance analysts at Hoare Govett said the recent erosion of underwriting margins had been less than feared and they were expecting global pre-tax profits of £747m for 1995 and £471m in 1996. But Christie Brockbank Shipton (CBS), e Lloyd's agency, warned marine insurers had made large cuts in premium rates and could see losses this year. Meanwhile, CBS is close to buying Chatset in a deal which values Chaiset at about £100,000.

By Ralph Atkins, Insurance Correspondent

Internet take-up rate steadies

day priced at between 340p and 380p for UK investors, roughly in line with expectations. Large institutions and international investors will be required to pay an additional 10p per share. But the final price, which will depend on the pricing was described as "

A concerted campaign to

defend the prime minister's

approach to Europe and his

eadership style intensified yes-

terday with an attack by Mr Malcolm Rifkind, foreign secre-

tary, on the "childish xenopho-

bia" of some in the governing

Mr Rifkind'a intervention,

which came a day after an

endorsement of the European

ideal by Mr Michael Heseltine,

the deputy prime minister, was

announced by Sir George Young, transport secretary, represented fair value for a privatisation which bas aroused such criticism from the opposition political parties and the public at large. But

seen as an attempt to counter the calls for retribution against

the European Union over the

The government's inability

to secure a lifting of the han on

UK beef led to a renewed bout

of anti-European fever in the

House of Commons, as several

Tory MPs continued to fuel

speculetion about Mr. John

But both Mr Heseltine and

Mr John Redwood, the former

Welsh secretary who contested

the leadership last year, gave

categorical statements that

Major's hold on power.

beef crisis.

towards completing the con-troversial sell-off of British Rail Railtrack will issue 500m shares although up to 65m will be held back to allow stock market fluctuations to be smoothed ont in the first month of trading.

fighting the general election

Mr Rifkind, who like Mr

Major has in recent months

made limited gestures to Euro-

sceptics, called for an end to

the European debate being

"conducted at the extreme"

Britain, ha suggested, could be

among a majority of member

states not to join a single cur-

rency if it came into being in

tightly-knit group of countries all submitting to the same

"The concept of the EU as a

MPs are accused of 'childish xenophobia'

under Mr Major.

1999.

a cynical misuse of national

resources," by Ms Clare Short,

port spokeswoman.

end for the utilities sector."

Setting the Railtrack price

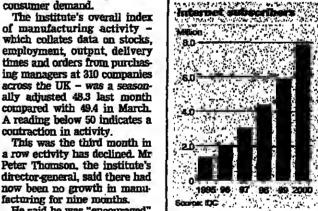
range marks another step

icals zone, in competition with the current leader, Rotterdam. The Teesside initiative has prompted nearly £500m of investment announcements since its launch last year. Most of these will be expansions of Lex. Page 16 | existing plants, including a by 17 per cent this year.

change ownership - and consumer demand. increased economic uncer-The institute's overall index

of manufacturing activity tainty for this shortfall, which which collates data on stocks, is far greater than normal. However, they expected employment, output, delivery times and orders from purchasanthorisations for future investment in the UK to jump ing managers at 310 companies across the UK - was a season-ally adjusted 48.3 last month

contraction in activity. This was the third month in a row ectivity has declined. Mr rency saying it was too early to Peter Thomson, the institute's director-general, said there had decide whether Britain should now been no growth in manuioin and that he was content with the idea of e referendum. facturing for nine months. He said he was "encouraged" But the chancellor left no doubt that he was sympathetic to the idea of European monetary union. While conceding that opponents of a single cur rency were not isolationist in intent, he said they might be "isolationist in consequence". Whether the UK joined or not, Britain should aim to be in the



The number of Internet users in the UK will rise from 1.3m at the end of 1995 to 7.7m by the end of the decade in spite of slowing subscriber growth rates, according to International Data Corporation, the high technology consultancy. The IDC report says snb scriber growth will continne to be driven by the attractions of electronic mail, enhanced content on the World Wide Web and connecting internal corporate networks - intranets. Web usage is expected to 1995 96 97 98 99 2000 be limited for some time. mainly because of capacity constraints, and IDC suggests

that, "the wide area network bottleneck/capacity concern in the UK is the largest inhibitor to rapid uptake of the Internet and the Web"

in spite of this IDC expects the markets for Internet and intranet-related software and services to grow rapidly, at 36 per cent and 70 per cent compound annual growth rates respectively during the next five years, albeit from a small

Meanwhile Unipalm Pipex, one of the leading UK-based Internet access providers, is launching an upgraded service today which will provide its personal subscribers with what it claims is the world's fastest dial-up access to the Internet using a standard telephone line. Paul Talyor, London

Tourist numbers soar

The UK expects to welcome a record 25m visitors to its shores in 1996 after seeing a 6 per cent jump in numbers in January and February. The UK's popularity has been enhanced by sterling weakness, the opening of the Channel Tunnel and ffective marketing.

There were 24.0m visitors to the UK in the twelve months to the end of February, up 12 per cent rise on the previous 12 months, according to National Statistics. The figure was swelled by a 9 per cent rise in American visitors, a 12 per cent increase in West European visitors, and a 12 per cent jump in visitors from the rest of the world. UK visits overseas rose 4 per cent to 42.0m in the twelve months to the end of February. By Christopher Brown-Humes

by the pick up in the consumer sector but that the government would now find it "very diffi-cult to defend its npbeat growth forecasts for this year". The buoyancy of the consumer sector meant factories took on more staff for the first time in four months although companies making intermediate and investment goods continued to shed jobs.

Labour pledge to Machine tools factory considered

they were fully committed to degree of integration and

HK minorities

By John Ridding In Hong Kong

A Labour government would give Hong Kong's ethnic minorities full right of abode in Britain if they were stateless after the territory returned to China next year, Mr Robin Cook, the shadow foreign secretary said yesterday.

Mr Cook said the Conservative government's stance that members of minority groups would be given right of abode if they came under pressure to leave Hong Kong was inadequate. He estimated the numbers concerned at between 3,000 and 5,000.

On most issues relating to Hong Kong, however, Mr Cook struck a similar stand to the government. "We want to avoid making Hong Kong a partisan matter within British politics," he said, adding that this would damage Britain'e interests in dealing with China.

Relations between Britain and China have come under serious strain in recent weeks because of Beijing's plan to replace the territory's elected war widows in the territory.

legislature. Mr Cook nledged that a Labour government would resist such a move. Asked whether it would take the matter to the United Nations and the international Court of Justice, the shadow foreign secretary said that all options would be available.

Mr Cook said there was little prospect that a Labour govern-ment would seek to replace Mr Chris Patten, the governor of Hong Kong, who has been strongly criticised by Beijing for implementing democratic reforms. Mr Cook said he would take "an ewful lot of persuading" of the need to replace the governor.

In addition to the right of abode for ethnic minorities, Mr Cook said that he would write to Mr John Major, the British prime minister, urging him to bring forward legislation grant. ing citizenship to war widows in Hong Kong. During a visit to Hong Kong in March, Mr Major said that this would be

the subject of a private members bill. The Hong Kong government estimates there are 54

By Peter Marsh in London

Amada, the Japanese company that is the world's biggest machine tool builder, is considering setting up a UK manufacturing operation. Mr Nobuyuki Ueda, Amada's

president, said the company was studying the possibilities" of a UK plant to add to its existing European manufactur-

ing operation in France. Mr Ueda, interviewed in Birmingham at the machine tool business'a annual exhibition, would give no further details. Assuming Amada gave the

go-ahead to a plant, it would be a further fillip for the UK machine industry, which is in buoyant mood after a bleak period in the early 1990s recession when order books and out-

put fell steeply. If the plant went ahead it would fit in with trends in the industry of setting up factories close to main customers.

There are strong incentives for Japanese machine tool companies to set up European production operations: the strong yen, which makes exporting from Japan to Europe unattractive, and the high costs of

"oremler league" of countries

that were eligible to do so, he

edded.

adepting Jepenese made machinery to meet EU safety regulations.

Industry sources said that if Amada decided on a plant, which would add to its existing sales operation in Kidderminster, western England, it would probably involve spending of at least £10m and might create "several hundred" manufacturing jobs.

Political tensions heightened by beef negotiations

By George Parker at Westminster

Mr Douglas Hogg, agriculture minister, was subjected to scarcely concealed contempt from many MPs in the governing Conservative party yesterday, when he reported to the House of Commons his latest attempts to persuade the European Union to lift the ban on British beef exports.

Euro-sceptic Tory MPs laughed mockingly'when Mr Hogg insisted that his fellow EU agriculture ministers "explicitly recognise that the ban is temporary

Mr Hogg's allies insist that he did make solid progress at the EU agriculture council in Luxenbourg, but his inability to secure an early lifting of

Consumer organisations were sbocked yesterday by the government's discovery that cattle feed continues to be contaminated with sheep remains eight years after it was ban-ned in an effort to eliminate BSE, write Deborah Hargreaves and Caroline Southey.

The Ministry of Agriculture

the ban has fuelled the war raging in the Conservative party over Europe. Mr Hogg, who is anxious to take the

political heat out of the beef crisis, semen exports. insisted his policy of "persuasion and negotiation" was the best way to achieve a lifting of the ban.

feed samples taken at mills in Febru-

for cattle was banned in 1988 because it was believed that scrapie - a dis-ease in sheep similar to BSE - could be transmitted to cattle. Pig carcases

He said the EU had agreed in princi-ple to a step-by-step lifting of the ban, possibly starting with an easing of restrictions on tallow, gelatine and

He said he would consider carefully EU suggestions of e selective slaughter policy that went wider than the

A ministry official said that a test for detecting animal protein in feed fidence. had only been developed in the past year and that feed at farms and

feed mills was being regularly tested "We were disappointed with these findings, but those mills where it was found will now be monitored on a

weekly basis," he said. 42,000 cattle he has proposed, but not

much wider. "The scale of any measure finally put in place will be very much on the lines I have already indicated to the House," he said.

Tory right-wingers packed the chamber to air their anger at the continuing beef ban, and their sate for the lost exports.

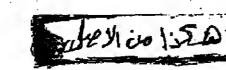
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derisive laughter during Mr Hogg's statement reflected their growing con-Mr Nicholas Budgen, Tory MP for

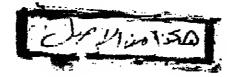
Wolverhampton South West, warned Mr Hogg that the Commons would not approve any EU demands for e wider cull of apparently healthy cat-tle, while Mr Nicholas Winterton, MP for Macclesfield, claimed the European Union was "out to destroy" the British cattle processing and distribution industry.

Mr Bill Cash, MP for Stafford, called for the suspension of Britain's payments to Brussels while the senior right-winger, Sir Ivan Lawrence, said the government should ban imports of French and German beef to compen-



revealed this week that of 834 cattle were banned from cattle feed in 1994.

ary and March, three were contaminated with sheep remains and five with pig material. The use of sheep remains in feed





IN BRIEF

FINANCIAL TIMES **COMPANIES & MARKETS**

THE FINANCIAL TIMES LIMITED 1996

Thursday May 2 1996

BA scraps plan for 60 regional jets PepsiCo matches

Motorola team calls for EC Irish probe By Michael Skapinker, Aerospace Correspondent

ations."

dismisses

idea of

merging

with P&O

By Hugh Carnegy in Stockholm

Mr Bo Lerenius, chief executive

of Stena Line, said yesterday the Swedish ferry operator was com-mitted to remaining an indepen-

dent carrier on the English

Channel and was not interested

in a merger with the UK's P&O

to meet tough competition from Eurotunnel. "We have no inten-

tion of doing anything else but

going on our own," be said. Mr Lerenius was responding to news that P&O, the biggest ferry operator on the Channel, was set

to seek permission from the

Office of Fair Trading to be

allowed to hold merger discus-

sions with Stena. Ferry operators

have been in a price-catting bat-tile with Eurotunnel, which has taken a share of more than 40

per cent of Channel traffic since

willing to discuss changes in

ferry companies on the Channel

if the OFT reopened the issue in

opened last year.

С 6

Persona, a consortium involving Motorola of the US, is to complain to the European Commission over the Irish government's handling of the competition for Ireland's second GSM mobile phone licence. Page 19

derlined 1 per cent, falling

first time in seven trading days. The Nikkei slipped

226.29 to 21,815.01 as uncer-

tainty over the course of the

below the 22,000 level for the

Nikkei retreats below 22,000 level Tokyo's Nikkei 225 index

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yen weighed on investor 1**a** sentiment. Bargain hunting by domestic institutions pro-14 L vided some aupport for the 1995 96 index, but their purchases Source: FT Extel remained limited ahead of the five-day weekend starting on Friday. Page 36 The rise and fail of the AlOC empire The Russian metals business in the early 1990s offered a modern equivalent of America's wild west,

and some of the most successful cowboys worked for AIOC, a New York-based commodities group. But more than any other company, the rise and fall of AIOC demonstrated the opportunities and lethal pitfalls of the Russian metals trading market. Page 18

Pacific BBA blds A\$275m for Azon Pacific BBA, the Australian manufacturing group. launched a hostile A\$275m (US\$217m) bid for Azon. the former manufacturing division of the Boral huilding materials group, which was floated off on the stock market three years ago. Page 21

Banco Santander to buy out partner in CCH Banco Santander, the Spanish banking group, is to pay DM300m (\$195.6m) to buy out the 50 per cent stake held hy its partner, Royal Bank of Scotland, in CC-Holding, parent company of Germany's CC-Bank consumer finance group. Page 22

BAT rises to £600m in first quarter BAT Industries of the UK reported underlying firstquarter profit growth of 10 per cent with its tobacco businesses performing slightly worse than forecast and its financial services marginally better. Pre-tax profits including an exceptional gain were up 16 per cent to £600m (\$900m). Page 23

Mergers lift Sons of Gwalia into gold index Only 14 months ago Sons of Gwalia was - in production terms at least - one of the also-rans among Australian gold miners. But three quick deals since Mr Lerenius, speaking at Sten-a's base in Gothenburg, said his company would "of course" be then have propelled it into fifth place among Australian gold producers and earned it a place in the Financial Times Gold Mines Index from tomorrow. rules limiting co-operation by

	Page 26									
	Companies in ti	his is	sue							
	AIÓC		Esat Digitone	19						
	Air Cenada		Eurotunnel	24						
	Air New Zealand	21	Flat	1						
	Allianz	23	Glordano Holdings	21						
	Ansett Airtines	21	Gold Mines Kalgoor.	21						
	Astra	19	Hypobank	22						
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	Frankfurt, Paris and Ba	nakok (losed. New York and	Toronto						
	prices at 12.30pm.									

British Airways has shelved plans to spend more than \$1bn on 60 regional jets. The purchase would have been the airline's biggest order for five years. BA said yesterday that it had told leading aircraft manufacturers to stop work on their bids for European consortium. the order. The airline said; "We've decided to put the tender process on hold to give us time to evaluate our regional oper-

BA asked five manufacturers 24 Boeing 747-400s.

to submit bids in January. It said it was interested in making 30 firm orders for regional jets and taking an additional 30 options. The five manufacturers asked to aubmit bids were Boeing and McDonnell Douglas of the US, British Aerospace, Fokker of the Netherlands, which has since collapsed, and Airbus Industrie, the

The regional jet purchase would have been the largest made by BA since August 1991, when it ordered 15 Boeing 775, with options on a further 15, and

BA said yesterday it had decided that the planned regional jet purchase did not make eco-nomic sense. "We made it clear that to fund such a large purchase, changes would be required in our regional cost base. That a

Acrospace industry executives believe BA's change of mind is a result of a re-evaluation of the airline's priorities by Mr Robert Ayling, who took over as chief executive at the start of the year. BA has continued to express an interest, bowever, in buying a new large aircraft, capable of car-

rying more than 500 passeng Boeing hopes to begin work on a 500-seat aircraft by the end of the year. Airbus says it hopes to announce firm plans for a 550-seater by the end of 1997.

When BA invited the five manufacturers to bid for the regional jet order, it said it wanted aircraft in the 80, 100 and 120-seat category to replace Boeing 737-200s on UK domestic routes and on services to continental Europe from Birmingham, Edinburgh, Glasgow and Manchester. BA also said some of the aircraft would be used by Deutsche

Lex, Page 16

BA, the German carrier in which it has a 49 per cent stake. Although Deutsche BA has won passengers away from Lufthansa, Germany's main carrier, it runs at a loss.

The regional aircraft order had been seen hy several manufacturers as an opportunity to break Boeing's dominance as a supplier to BA. The carrier has never bought an Airbus aircraft, although its fleet contains 10 Airbus A320s which were ordered by British Caledonian before BA acquired the airline in 1987.

Coca-Cola stock split By Richard Tomkins in New York

Fletcher King

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> PepsiCo, the US snack and soft drinks gronp, yesterday mir-rored its US rival Coca-Cola by announcing a two-for-one stock split, donbling the number of authorised shares to 3.6bn.

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Empbasiaing the rivalry between the two, PepsiCo said trading in the split stock would begin on May 13 - the same date fixed by Coca-Cola for the start of trading in its split stock.

The move, ennonnced at PepsiCo's annual meeting, follows Tuesday's publication of its first-quarter results, showing net income 23 per cent higher at \$394m. Those figures lifted PepsiCo's shares \$2% to \$63%. and yesterday they were up another \$% at \$63% in early trading.

In the US, atock splits are taken as a sign that companies are confident about their growth prospects, because they suggest that continuing increases in their share prices will put the cost of even a single share ont of the reach of small investors.

Yesterday Mr Wayne Calloway, chairman, said: "PepsiCo'a ahareholders are clearly benefiting from the strength of all three of our businesses, and I'm confident our best years are still to come. The stock split will make it easier for individual investors to purchase shares."

PepsiCo also announced a 15 per cent rise in its quarterly divi-dend from 10 cents to 11.5 cents after the split,

At the end of last year Coca-Cola announced plans for a two-for-one stock split, increasing the number of anthorised shares from 2.8bn to 5.6bn. It said the split was in keeping with its tra-dition of keeping its share price at a level convenient for large and small investors. Two months later it announced a 14 per cent rise in its quarterly dividend to 25 cents a share, pre-split.

Coca-Cola appears to have more of a reason to split its stock than PepsiCo because its price is higher. Both companies have seen big increases in their trading yesterday, Coca-Cola's price was up from \$51% at the beginning of last year to \$81%, while PepsiCo's price had risen from \$36% to \$68% over the same period. Coca-Cola's last three stock splits were a two-for-one splits in 1992 and 1990 and a three-for one split in 1986. PepsiCo had three-for-one splits in 1990, 1986 and 1977.

Aiming for a direct hit on US insurance market ike a Hollywood star

scared of being typecast, Mr Peter Wood (right) the nearest the UK insurance industry gets to a celebrity - just wants to be free. Direct Line, the telephone-

based insurer he founded 11 years ago, has transformed the private motor and bousehold sectors - in the UK and increasingly overseas where others are mimicking his methods of selling direct to customers. Mr Wood has

less. Under his recently renegotiated contract, he can spend half his time on non-Direct Line business. Last week, be unveiled details of a separate US venture, Direct Response, in conjunction with business partner Mr Jim Stone, chairman of Plymouth Rock, a Boston-based insurer. They bave raised \$215m to launch the auto insurer which, like Direct Line, will cnt ont intermediaries and their commisdo.' sions. The plan is to cover most

states within five years. There is an obvious motive to the light of Eurotunnel's impact. explore the \$100bn US auto mar-The company bas acknowl- ket. After explosive profits ne, now the te motor

Talks are in process on a possi ble German venture following the launch last year of Linea Directa Aseguradora, Direct Line is also looking to build telephone sales of other financial services products, such as mortgage and life assurance, to create what Mr Wood describes as "the hullding

society of the future". Mr Wood's restlessness stems not so much from the challenges Direct Line faces - more his determination to have control of his life, His is a director of Royal Bank of Scotland, Direct Line's parent, and a substantial share-

Mr Wood says, "I own e third of 1 per cent of Royal Bank, a 'rounding error'. I don't abso-Intely control my own destiny ... I don't want to find that somebody has turned up at St Andrew Square [Royal Bank's Edinburgh bead office] and bought Royal Bank and is telling me what to

So Mr Wood has prepared his defences against the often rumoured possibility of Royal Bank being taken over. He has rights to buy out Privilege, a sis-ter company to Direct Line which specialises in non-standard

motorists. This, he says, could be



rapidly and cut prices for the betfor the regulatory system, Mr Stone is a former Massachusetts ter risks. Mr Wood is undaunted. "When insurance commissioner who share prices recently. In early knows the system backwards. Above all, Mr Wood is con-vinced successful insurance com-panies will be those closest to the customer. Insurers which try to shares. "It is not as if I'm taking on Coca-Cola." Direct Response will use Mr appeal to brokers and agents, while also setting up direct operations "are caught between the devil and the deep blue sea... You are not in control of your

become a multi-millionaire. But Mr Wood has become restbolder.

	edged the likelihood of rational-	growth by Direct Line, now the
	isation and said "the time might	UK's largest private motor
	be right" to discuss the issne	insurer, figures next week for the
	with the antborities. "If that	six months to March are expected
	came up we would talk to them,"	to show a turnround. Fierce price
	Mr Lerenius said. "But we are	competition among UK insurers
	not interested in taking the ini-	has eroded margins while excep-
	tiative."	tionally severe weather bas
	He said Stena, the world's big-	pushed up claims, perhaps cut-
	gest ferry operator, had had no	ting first-half profits to virtually
	recent contact with the OFT or	nothing.
	P&O on the issue. Both ferry	Mr Wood denies losing affec-
	companies unsuccessfully sought	tion, however. "I could never get
	a relaxation of channel competi-	fed up with Direct Line," be says.
	tion rules three years ago in	"It's my baby." Growth in motor
	anticipation of Eurotunnel's	and household has slowed and,
	opening.	although Direct Line will not
	Stena last month blamed com-	cede market share, "this is not
	petition from Eurotunnel for a	the best time to put the foot on
	23 per cent increase in its losses	the accelerator hecause people
	in the first three months to	are writing husiness at stupid
	SKr504m (£49m).	rates." Bnt, Mr Wood says, if
	Mr Lerenius said Stena had	Direct Line is finding it hard,
	recently increased its capacity	"there are lots of competitors and
	on channel routes from three ships to five after scrapping a	a lot of them are losing huge amounts of money". Moreover,
	previous pooling arrangement it	Direct Line has expansion plans.
	had with the French operator	The market for travel insurance
Ì	SNAT. "Our strategy is to go on	is being tested and pet policies
	by ourselves and strengthen	are being considered.
1	capacity. We are taking market	
1	share," he said.	US private auto
1	He said if Eurotunnel took 50	insurers
	per cent of Channel traffic - and	
1	Channel traffic continned to	Top 10 Werket
	grow - there would be 13m to	Groups share (%)
İ	15m passengers a year available	State Farm
	to ferry operators.	Alistate 12.1
	"That would still be the big-	Fampers 6.2
	gest ferry route in the world. We believe there will be room for	Nationwide 3.7
	two operators apart from the	USAA SERVICE SECTION
	tunnel and we intend to be one	Geico 2.0 Liberty Mutual 2.0
	of them," Mr Lerenius said.	Prudential of America 1.6
	There are five surface opera-	Progressive 1.6
ł	tors on the Channel. Stena oper-	American Family 1.6
ļ	ates four routes, but has 12 other	Total of Top 10
ļ	ferry routes in northern Europe,	Total of industry 100
I	making it less dependent on the	Source: AM Best
ļ	channel than its competitors.	
ļ		
	Flatrowa	tt to place
ļ	Elektrowa	
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	By Christopher Price in London	will have hoped to make up to
I	by our owned investigation	The same the day mine up to
1		fyum mom the deal. The sale is
	Elektrowatt, the Swiee	£90m from the deal. The sale is part of a larger disposal pro-

the Swiee part of a larger disposal proago in order to help fund the SFr1.8bn (\$1.5bn) takeover of Landis & Gyr, the Swiss electronics group. However, analysts said the Swiss group would be lucky to

to a third party. A 17 per cent fall in Eurodis Electron's shares yesterday - down 49p at 233p partly reflected the removal of the bid potential. A buyer would have had to mount an offer for the entire group. There was also a pessimistic trading statement from Eurodis, and at yesterday's share price the company was valued at £134m (\$202m).

The failure to clinch a trade sale will come as a severe disappointment to Elektrowatt, which

eek for the built up to rival Direct Line re expected Or, Mr Wood proposes: "If any-Fierce price JK insurers one came to buy Royal Bank, if there was any way they would sell me Direct Line at a reasonhile excepable cost, I would certainly conather bas rhaps cutsider raising the money." to virtually

The US venture would be another. fall-back. Mr Wood plane to back. sing affec-Wood plans to spend one d never get ," be says. week in four living in Boston (which, if he only spends half his time at Direct Line, still leaves opportunities for other projects). e will not He owns about 10 per cent of Direct Response; business partner Mr Jim Stone about 18 per cent. But the two will have conat stupid trol over most decisions and, if d says, if the company performs well, Mr Wood's stake would increase subetitors and

stantially. Softly-spoken and coy abont his personal finances there is a entrepreneurial twinkle in his eyes: "I can make between zero and a substantial amount of money." It may not be easy. The US auto market is dominated by Allstate and State Farm, by no means laggards among insurers. Agents and other intermediaries already make use of telephone sales so the extra convenience Direct Response offers consumers might be limited. Moreover, Mr Warren Buffett's Berkshire Hathaway investment

group last year increased its investment in Geico, an insurer which already sells direct to customers - perhaps creating a for-midable opponent for Mr Wood. At the same time, the US market is highly regulated. It will be hard to emulate Direct Line's ability to change premium rates

ace UK stake

Elektrowatt, engineering and power group, is gramme put in place six months to place its 40 per cent holding in Eurodis Electron, the UK electronics components distributor, after failing to find a buyer for the stake. It had hoped to sell the holding

realise £55m from the sale, which would have to be struck at a discount to the prevailing share price. The third-quarter trading statement from Eurodis Electron yes-

terday said sales growth had slowed and would probably be 10 per cent, rather than the 15 per cent previously forecast for 1996. become the sole chief executive. The company blamed competitive Estimated cost savings from the market conditions in Europe. News of Elektrowatt's decision rationalisation moves would delighted Mr Robert Leigh, chaireventually amount to £1.5m.

man of Eurodis Electron, who had been furious over the The sale is announcement hy the Swiss group to sell its stake. The decision was taken in December, just five months after Elektrowatt had merged its electronics distribution business, Eurodis, with Electron House of the UK. Mr Leigh assumed the Swiss group was a long-term shareholder.

An unamed German group held three-way discussions with Elektrowatt and Eurodis Electron, but a price could not be agreed. The Swiss headquarters of Eurodis are to be closed and Mr Rolf Thurnherr, the joint chief executive, is to leave the company. Mr Barry Charles will

I started Direct Line I took on all the giants of UK insurance." The US market, he points out, is huge and "direct" writers, including Geico, have only small market

Wood's expertise in setting up low-cost operations; undercutting others by saving on building own destiny which is what I costs and agents' expenses. As always want to be."

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METALS TRADE IN THE FORMER SOVIET UNION

AIOC's dominance of the region's metals markets ended last month in bankruptcy proceedings. FT writers explain the causes of its collapse

The rise and fall of an empire built in Russia

magine the brash, self-styled masters of the brash, universe" who dominated Wall Street in the 1980s doing deals in an economy as freewheeling as the wild west. Then you will have a fair impression of the Russian metals business in the early 1990s. The Russian mstals sector became a modern-day Klondike for Soviet-era factory managers and their western trading part-

More than any other company, the rise and fall of AIOC, a New York-based commodities trading gronp, demonstrated the opportunities and lethal pitfalls of the Russian metals trading market.

Some of the most successful "cowboys" worked for AlOC, owned and run by Mr Alan Clingman, a 36-year-old entrepreneur who says he made his first fortune broking oil in his native South Africa.

At the height of its succes AIOC became s dominant force in the former Soviet Union's metals sector. In May 1993, AIOC took over Swedish conglomerate Axel Johnson's raw materials trading subsidiary, creating a company which Mr Clingman claimed was the biggest independent US-based physical metals trading group with an annual turnover of \$1hn.

But after riding the highs of the Russian metals market for half a decade, AIOC suffered a series of setbacks last year, including the murder last September of one of its leading figures. This month it was forced into bankruptcy pro-ceedings by disgruntled west-ern creditors. The company also owes Russian banks a reported \$35-\$40m.

AIOC's rise began as the Soviet regime collapsed and its successor states began the long journey to a market economy. Trade in many commodities slipped out of the centralised control of bureaucrats in Moscow. But et the same tims. a considerable gap remained between domestic and world prices. That difference made the metals trade a lucrative husines

Obtaining metal on the most favourable terms meant offering Soviet-era factory managers and government function-

NEW ISSUE

aries lavish inducements. In 1994, one western metals trader bitterly complained that a rival company had provided each member of an official delegation visiting London from **Kazakhstan with three female** companions; he had only supplied one escort per Kazakh when he had entertained the group the night before. Hs feared he might lose the deal. But there was also a darker

sids to the fight for a profitable share of the Russian metals trade. The metals business was seen as one of the most savage sectors in an already tough economy. Last year at least

One western metals trader complained that a rival company had provided each member of an official Kazakh delegation visiting London with three female companions; he had only supplied one escort when he had entertained the group the night before. He feared he might lose the deal

half a dozen businessmen involved in the Russian metals industry were assassinated. One of the victims was Mr Felix Lvov, the guiding spirit behind AIOC's Russian operation. Many observers say his murder last September acted as a catalyst for the company's collapse. A native of Dnepropetrovsk,

in Ukraine's industrial heart land, Mr Lvov began to do business deals in the 1980s, when most private enterprise was a crime in the eyes of the Soviet state

Mr Lvov was e ubiquitous presence in AIOC's Moscow office and, according to several former employees, he was the linchpin of the company'e Rus-sian operations. Mr Lvov was particularly crucial to AIOC'e ties with the Krasnoyarsk aluminium smelter, the second largest smelter in the world.

But when Mr Lvov was kidnapped, then shot and killed last September, AIOC immediately distanced itself from him.

Former employees and other industry sources say that shortly after Mr Lvov's murder, Mr Clingman circulated a memo which asserted that Mr Lvov had never been an AIOC employee, but had been only loosely affiliated with the company as an occasional outside consultant. In a recent interview, Mr Clingman described Mr Lvov as a mere "local part-

According to former AIOC traders, Mr Clingman justified his actions as "a step that was necessary to save the lives of other people in the company". But both within and outside the company, Mr Clingman's reaction to the murder had painful consequences. On top of losing the profitable Krasnoyarsk business and Mr Lvov's priceless network of contacts throughout the former Soviet Union, his murder soured Mr Clingman'e relationship with

many other senior AlOC fig-ures and tarnished the company's reputation in the industry. "Clingman took a very ugly position - immediately after the death of Felix, he disowned him," says the head of a Russian metals trading firm based in Moscow. "The people of AIOC also felt wounded. It

eemed like a betraval." People in the company also say that Mr Clingman's reaction to the murder embittered Mr Alexander Krasner, a Soviet emigre who was e part-owner of the company and had been Mr Clingman's partner from the outset. Mr Krasner, who helped AIOC penetrate the byzantine Russian market and was distantly related to Mr

Lvov, left the company at the beginning of this year. The loss of Mr Lvov and his web of contacts was compounded by the second big rea-

son for AIOC's collapse; sub-stantial trading losses. Some former AIOC employees allege that the company suffered losses of at least \$13m trading metals on the London Metal Exchange in late 1995 and st the beginning of this year.

But other former employees and current AIOC officials say the company's biggest setback was a large trading loss in ferro-chrome, a raw material used in stainless steel production. According to an official AIOC press release, the company's loss on ferro-chrome, which is thought to be at least \$22m, was triggered when Turkish chrome miners went on strike last summer and blocked deliveries of AIOC chrome ore cargoes for which the company said it had already paid. "The delay in receipt of this

ore forced AIOC to buy in ferro-chrome supplies at the height of the market to meet its contractual commitments to customers in the third quarter," the company said.

he difficulties were compounded in the fourth quarter of last year when AIOC received double quantities of ferro-chrome just as the market crashed. AIOC's ferro-chrome business had already been damaged last May, when the Kaz-

for AIOC.

akh governmant transferred the management of the country's entire ferro-chrome industry to Japan Chrome, a mem-

ber of the Transworld group and AIOC's fiercest rival in the metals trade in the former Soviet Union. The agreement allowed Japan Chrome to sever most pre-existing contracts unilaterally.

The steel industry also fell. under the privatisation scheme, leading to the transfer last November of Karmet, a large Kazakh steel mill, to foreign managers. As in the ferrochrome industry, the new administration was freed from the company's old debts and contractual obligations. Sources at the mill and within AIOC say the transfer brought a loss of between \$6m and \$7m

AIOC's weakening positions in Russia and Kazakhstan and Clingman said that "it was never our ambition to become its trading losses were the biggest direct causes of its poor performance last year, but industry observers and former employees say the company also suffered because of a strategic mistake.

"At the end of 1994 and the

who has now left the company. This approach led to high overheads - estimated by some former employees at \$85m-\$45m annually - which made it difficult for the company to survive a lean year.

At the end of 1995 and the beginning of this year, all of these factors cams together. AIOC began to collapse. The company experienced severe liquidity problems. It came under intense pressure from its backers in Russia and the west. Russian traders said the company began to sell off stocks "very quickly, with lit-tle concern for the best price". As AIOC's financial woes mounted, Mr Clingman says he sought salvetion from Mr Marc Rich, but after talks with the legendary commodities trader fell through, the pressure on AIOC from its creditors

became even more intense. Once it became known thet our discussions with Marc Rich would not amount to a transaction, there were a lot of rumours in the market," said Mr Clingman. "A lot of our creditors became more aggressive in dealing with us. Without continuing financing, the company goes into a meltdown situation. It became a self-fulfilling situation."

tion process in Russia really In early March, several brokers issued margin calls to took off and the trading compa AIOC. When the company nies were divided into insiders who bought shares, and outsid-ers who just traded," explained failed to meet them, the brokers liquidated AIOC's open the head of a Russian metals positions, cancelled the firm's trading company which has lines of credit and asked for acquired e majority holding in immediste payment. Last month, fearing that AIOC one of the country's alumin-ium smelters. "AIOC made the would ditch its foreign assets wrong strategic decision - they in a fire-sale, a group of brodidn't epend money to buy kers, including Lehman stakes in Russian companies. Brothers, Crédit Lyonnais Rouse, Merrill Lynch and Mit-sui Bussan, filed involuntary In an interview earlier this month, Mr Clingman said that Chapter 11 proceedings against one lesson to be drawn from the company. In a letter to AIOC filed to AIOC's experience was that "probably" the only way to

survive in Russia today is to the court, Mr William Olshan, a Lehman Brothers vice-president, alleged the company may have obtained credit "in bad faith" But some former and current

buy local companies. But Mr

an investor in Russia."

Former AIOC employees believe the company's trading AIOC employees are more worlosses and strategic mistakes ried about the local reaction. were compounded by the ambi-Some ex-employees said they tion of its management. "It is definitely a case of had received serious warpings. and well-informed Russian businessmen believe AIOC'e in Kiev hubris in the top manage-.

ment," said one senior trader senior management could be in a dangerous position. "The past three months have been totally depressing," said one former employee. "It was a time of death threats. It's not that they say 'we will kill you'. more like 'we suggest for your

safety that you pay us'." Tokobank, Manatep and Vneshtorghank, AIOC's biggest Russian creditors, reacted publicly to the company's collapse in a mild way, insisting that it would not significantly affect their balance sheets. But a source at one of the banks said AIOC's defauit

Well-informed Russian businessmen believe that AIOC's senior management could be in a dangerous position. Some ex-employees said they had received

warnings. 'The past three months have been depressing,' one said. 'It's not 'we will kill you', more like 'we suggest for your safety that you pay us?

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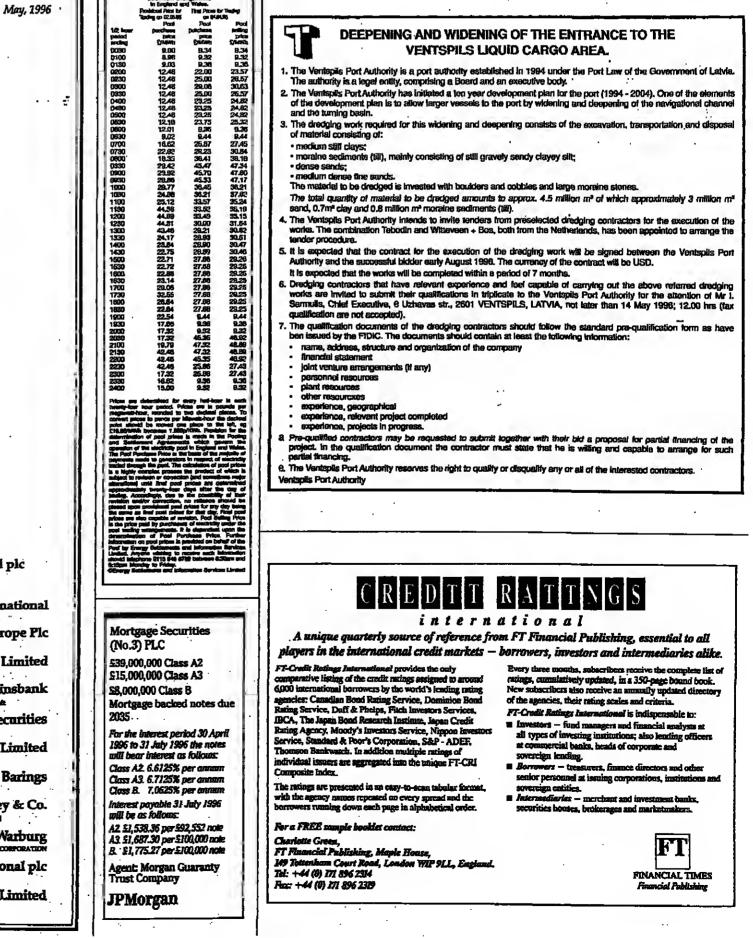
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marked a turning point in the assumptions Russia's fledgling capitalists make about their estern counterparts.

"It is a paradoxical situation . for us, because we are accustomed to Russian clients not returning credits, but we don't expect it of westerners," he said.

Some observers see the crash of the high-flying AIOC traders as a Russian Bonfire of the Vanities, and warn that other foreign companies may collapse as the easy money of the early 1990s gives way to a more settled, long-term business environment. But others say the US company's failure could also, inadvertently, contribute to the coming of age of the Russian market, as Moscow financiers learn that even western capitalists can go

broke. Reports by Chrystia Freeland in Moscow, Kenneth Gooding in London, Sander Thoenes in Almany and Matthew Kaminski





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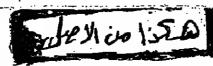
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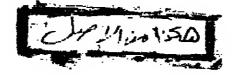
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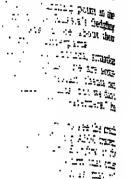


COMPANIES AND FINANCE: EUROPE

IRSDAY MAY 2 1996 s of its collapse **S**12

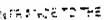
senior management could be b amor management tout the in adargerous position. "The past three mooths have been cotally depressing said one maker employee. "It was a "threate by and time of death threats. It's to that they say we will kill you safety that you pay us'. Tokohank Tokobank. Menatep and Tokopank, Menalep and Vneshtorgbank, AlOC's biges Russian Creditor: reacted but licly to the company's collapse in a mild way, insisting that is monthe not similicantly and would not similicantly and their balance idees. But a scarce at one of the banks said AlOC's defaut

Well-informed Russian businessmen believe that AIOC's senior management could be a dangerous position. Some ex-employees said they had received warnings. The past three months have been depressing. one said. It's not 'ne will kill you. more like we suggest for your sately that you pay a



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Motorola team seeks EU probe over Irish licence

FINANCIAL TIMES THURSDAY MAY 2 1996

By John McManus in Dublin explain why they were unsuc-

consortium involving Mr Michael Lowry, minister Motorola, of the US, is to comfor communications, defended plain to the European Commisthe competition process in the sion over the Irish govern-Irish parliament on Tuesday. He pointed out that his departmeot's bandling of the competition for Ireland's sec-ood GSM mobile phone licence. ment was advised by independent consultants and sald Persona, the consortium there was a "rigorous and cominvolving Motorola and ESB, pletely independent evaluation of six applicants". Mr Lowry also pointed out the Irish state electricity company, was one of five unsuc-cessful hidders for the licence, that Motorola and the other US which was awarded last

companies - including AT&T, November, However, Esat Digi-Comcast and Southwestern Bell - had all insisted on their fooe, the successful Irish-Norwegian consortium, has yet hids helog treated coofideoto sign the liceoce, which is still be drafted by the Irisb tially An EU investigation resultattorney general's office. Motorola is claiming the

ing from the Motorola complaint is not expected to delay the signing of the licence by Esat Digifone later this month. Esat Digifone is 40 per cent owned by Telenor, the Norwe gian state telecoms company and 40 per cent by Esat Telecom, a private Irish telecommunications company.

The remaining 20 per cent of the company is being offered to private investors through an in Da investment company run by Mr Dermot Desmond, the Irish financier who owns London City Airport. Persona has also claimed

that Esat Digifone is in breach of the terms of the competition because it has not disclosed full ownership details. The department of communications has said full details of the consortium's make-op will be disclosed before the licence is meet the US companies to issued.

Tele Danmark in Internet expansion

Tele Danmark, the Danish access to 40 Danish companies telecoms group, said it was launching a Danish electronic marketplace on the World Wide Web that would ease access to the internet and raise tha number of Danish users by hundreds of thousands by the

said.

competitioo process lacked

transpareocy and openness, and therefore infringed Euro-

pean law. They also claim it

was skewed to produce less

competitioo for Eircell, the state-owned mohile phone

This included capping the

licence fee at 1£15m (\$23.3m)

and giviog a relatively low

weighting to tariffs in the

selection criteria. Such action

could constitute state aid to

Eircell, maintains the Motorola

rations involved in unsuccess-

ful consortia have enlisted the

help of the US embassy in Dub-

lin. Mr Dennis Sandberg, the

counsellor at the embassy, has

written to the Irish department

of communications asking it to

Motorola and other US corpo-

company.

consortium.

end of 1997, reports AFX News from Copenhagen. About 2 per cent of Den-mark's 2:4m households now have access to the Internet, terly CD-Rom update, it said. and growth is hampered by the fact that ordinary users find tha interface complicated, it

tions in Denmark. • Mr Hemjoe Klein, chief

(\$4.23) a month.

Jyske Bank 'ahead of budget' at DKr148m By Hilary Barnes

> Jntland-based Jyske Bank, which ranks fourth among Danish commercial banks with assets of DKr53bn (\$8.96bn), boosted first quarter pre-tax earnings to DKr221m this year, against DKr148m in the same period in 1995. With a rise in post-tax income from DEr144m to DEr148m, carp logs per shara were ahead from DEr17.78 to DKr20.13.

The bank, which is the only Danish bank to publish quarterly carnings figures, said the results were ahead of budget. Desplte a decline in short-term interest rates this

spring, net interest and fee income rose by DKr20m to DKr572m. Advances were up 9 per cent to DKr28.17bn, while deposits grew by almost 4 per

cent to DKr38.06bn. Operating locome was not greatly influenced by adjustments for the market value of the securities portfolio, an Item that often causes significant year-to-year fluctuations

ish banks' results. The first-quarter securities and foreign exchange revaluation item was a positive DKr52m this year, compared with DKr47m last year, said the bank. Operating expenses

increased by 3 per cent to DKr362m. Loan loss provisions were raised from DKr51m to DKr79m, attributed by the bank to "statistical provisions" on private customers with loans of less than DKr1m, which were increased hy Dkr33m to take account of increased lending to this cus-

extraordinary items of about DKr600m-DKr750m, after provisions of DKr300m-DKr350m,

DKr686m in 1995.

Jyske Bank's capital adequacy ratio at the end of the

Astra sets its sights on further growth

Swedish drugs group sees no merit in the fashion for alliances, writes Hugh Carnegy

r Hakan Mogren is a tall, imposing Swede with a shock of sil-Astra's rejentless rise Longe splag. ver hair whose cheerful demeanour disguises a tough streak - especially when it comes to those who wonder when the spectacular run of success achieved by Astra, maker of one of the world's two biggest-selling drugs, will start to wane.

"People say 'trees don't grow to heaven," Mr Mogren, chief executive since 1988, acknowledges with a smile. "They are looking for negative factors about Astra. Bnt I'm sorry Those factors are just not there.'

As Astra prepares for a listing next month on the New York Stock Exchange - only the second Swedish company to do so - Mr Mogren is no less defiant about his strategy of maintaining the independence of Astra. The group has ridden to the

top of the pile of Swedish companies in market value on the hack of its blockbuster antiulcer drug, Losec. But it remains a medium-sized force in the world pharmaceutical market Nonetheless, Mr Mogren is

distinctly unimpressed by the wave of takeovers and mergers sweeping the drug-makers' world. The latest deals have stronger Swedish krona. seen the merger of Switzerland's Sandoz and Ciba to form Novartis and, closer to home, tbe marriage of Sweden's Pbarmacia with Upjohn of replace it. the US.

"I cannot understand why some of these mergers have been done," declares the Astra chief. His suspicion is that low-growth, high-cost operators will "mix old problems with new problems and get drowned."

A company with Astra's high rate of growth does not need such an alliance, he says. "If you are growing at high speed, you can't do mergers and acquisitions at the same time." Thanks to Losec, which this

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"Of course, a product like Losec is a once in a lifetime year is set to become the world's higgest-selling prescription drug, Astra's sales growth product. But we strongly in recent years has risen at more than double the industry believe that the sum of all our other products is going to give us volume increases in the average, and profits growth has for long periods outstrip-ped sales growth. Last year, future matching what we have had with Losec." Before that happens, hownet profits jumped 29 per cent to SKrS.8bn (\$1.29bn) on sales ever. Astra expects a great deal more in performance from up 28 per cent at SKr35.8bn.

Bot the very strength of Astra's performance has begun Losec. The drug has won a 40 per cent market share io to raise worries among inves-Europe, just over 25 per cent in the US (where it is now sold tors about how long it can sustain such a record. This year. through Astra-Merck, a joint profits are expected to be vecture with the US company) damped significantly by the but only 5 per cent in Japan. Underlying sales growth in

the US is running at a rate of some 40 per cent a year. Mr More fundamentally, Losec's patent protection will run out in 2001 and analysts are coo-Mogren says Losec has to date cerned that Astra does not fulfilled only between one-third have the product pipeline to and one-half of its market potential.

There are also worries aboot new ulcer treatments that may erode the long-term use of Losec and its rivals.

"Some time in the future. Astra will be a victim of its own success," says a London-based pharmaceutical analyst, who declined to be identified. "Losec is a great product, bot we have seen in the past that companies with such successful drugs cannot replace

Share price relative to the Affarsväriden General 700 400 -300 -----200 100.4 1969 90 91 92 93 94 95 95

Mogreo says that the new treatment offers "enormous" new potential for Losec. And, he says, upper tract ulcers are not caused by the bacterium, which means long-term treatments will still be needed for them.

But what has Astra got in the product pipeline to support Mr Mogren's hold assertion that the company will have the drugs to secure its post-Losec future? Of Astra's three core areas

apart from gastro-intestinal treatments - respiratory, cardio-vascular and pain control treatments - the biggest success to date is for Pulmicort. an anti-asthma therapy increasingly administered by Astra's Turbuhaler inhalation device. Pulmicort sales rose 17 per cent last year to SKr4.3bn.

He also argues that market worries about changing treatments of ulcers are misplaced. Cort-Turbuhaler combi-In the lower intestinal tract, the discovery that a bacterium nation in the US. However, called helicobacter pylori was a Pulmicort on its own will oot cause of peptic ulcers has led to a breakthrough where the take up the slack when Losec sales begin to slow. Astra has, ulcers can now be eliminated therefore, moved to expand quickly through the combinagreatly its research and develtion of Losec and antibiotics. opmeot effort to increase the flow in Its product pipeline. This has caused soma to question whether Losec will, Most notably, it bought the therefore, start to eat into its R&D operations of the UK's own potential as a long-term Fisons last year for SKr2.4bn. chronic treatment. But Mr

year, a 75 per ceot increase over two years ago.

Mr Mogren says Astra has as many projects in the vital and expensive - clinical phase of development as in the pre-clinical stage.

19

As well as projects in its four core areas, Astra is working on potential treatments for central nervous system disorders, such as strokes, and is looking to other areas such as immunotherapy.

But the company's R&D speod as a proportion of its sales is only now coming up to industry averages.

"Mr Mogren's statement about future volumes implies far more breadth in their pipeline than is visible at the moment. It is a very confident statement," says the Londonbased analyst. stra is keenly awaiting

Confident is certainly a word that applies to Mr Mogren. The market may speculate that Astra would be a perfect part-oer for most of the world's top 10 pharmaceutical groups.

But with an expensive price tag and a core shareholder in the Wallenberg empire, Astra is oot an easy takeover target. And Mr Mogren is not looking for a merger. His sights are set on more growth. "The distance between the trees and heaven is very large," he says.

Altogether, Astra's R&D bud-All of these securities having been sold, this announcement appears as a matter of record only ·· · · · **Orange plc** orange

approval for the Pulmi-



them organically." Characteristicaliy. Mr Mogren has a robust riposte.

tomer segment. Non-performing loans were DKr597m, down from DKr784m a year ago. The bank confirmed its yearend forecast of profits before revaluation of securities and and services including banks

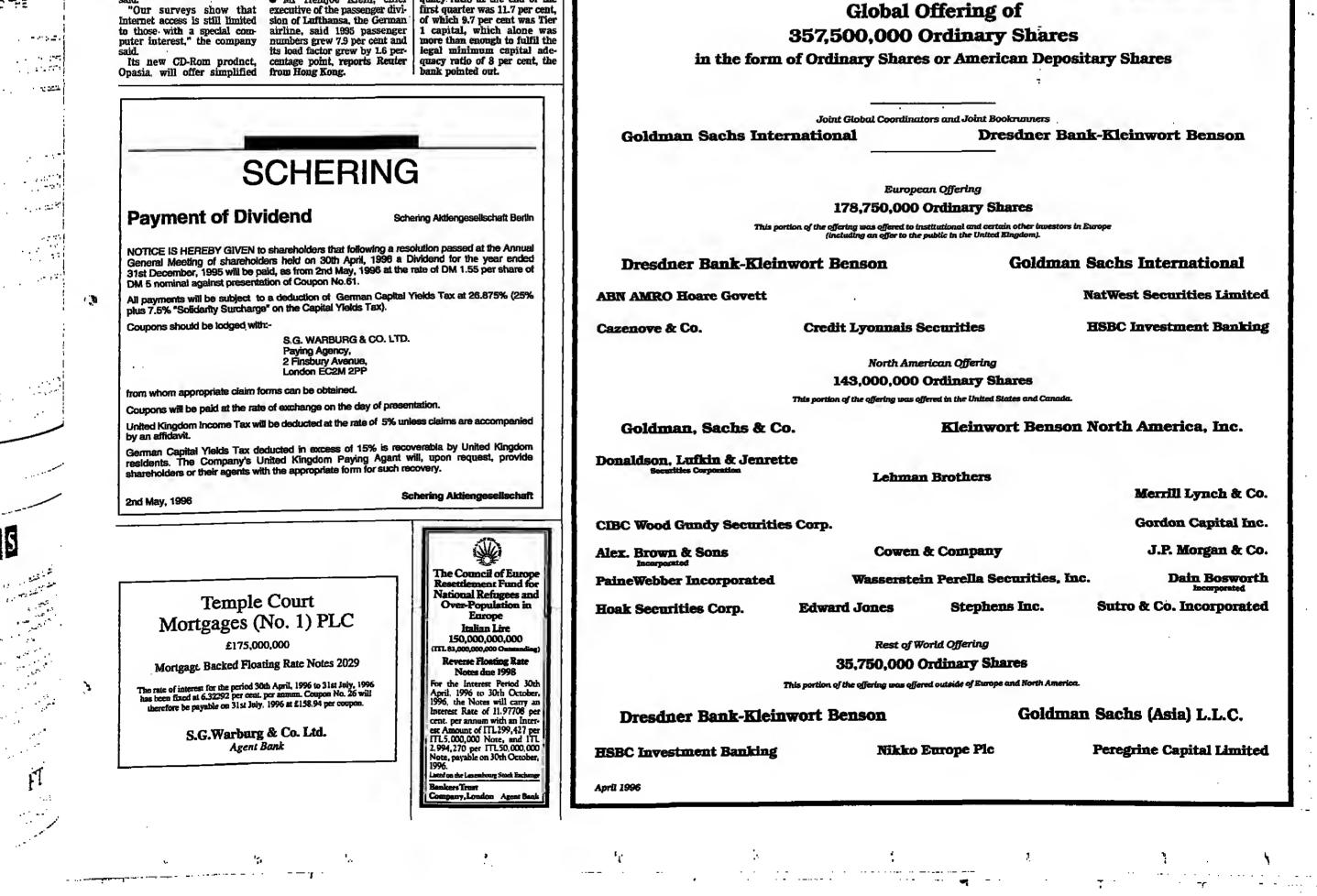
and newspapers, and various public services, for DKr25 Earnings on this basis were

For a further DKr40, users The bank's earnings, howcan have fall access to the ever, are highly sensitive to World Wide Web with their own address. The package changes in bond prices and includes a Danish version of yields. A change of 1 percentage point in average bond yields means a difference of Netscape software and quar-In its 1995 report, Tele Danplus or minus DKr100mmark said it was the largest

DKr150m in the bottom line, according to the bank.

provider of Internet connecquarter was 11.7 per c

In Copenhagen



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COMPANIES AND FINANCE: THE AMERICAS

US insurers weather the storm

By Richard Waters in New York

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An increase in weather-related losses failed to dent tha growth in operating income at two of the US's biggest insurance groups, CNA Financial and Cigna, during the first three months of this year. The two companies, which have been at the centre of the

restructuring under way in the US property/casualty insurance industry, each suffered tha effects of the savere weather which hit large parts of the US last winter. However, their latest results also reflect tha overall improvement in earnings at US insurers which has followed

the recent wave of restructurings and mergers, as well as improving conditions in the commercial insurance markets after a long period of margin pressure. The solid operating earnings reported by these and other big

US property/casualty insurers for the opening months of this year follow the most successful year on record for the induspany was created when Travel-ers, tha US financial services try. Thanks to the absence of big

group, merged its property/ casualty operations with those hurricane or other catastrophe es. the industry registered of Aetna, which it acquired for after-tax profits in 1995 of \$4hn. \$20.1bn. This was twice as new unit was sold to the public mnch as the year before.

performance is always a

tricky business. In Bra-

zil, measuring past perfor-

Balance sbeets, even for rep-

ntable companies, often con-

tain distortions that only expe-

rienced eyes can identify; some

mance is no easier.

CNA is controlled by the Lowes group of Mr Larry Tisch

according to figures compiled

by the Insurance Services

The rebound in earnings,

and a renewal in stock market

enthusiasm for some insurers,

for Travelers/Aetna. The com-

Just under 9 per cent of the

the previous year calculated

according to currency values

at the last day of the last

accounts are not needed now that monthly inflation has

been cut from double digits to

about 1 per cent. But observers

The government says such

accounting period. :

Office.

in an initial public offering last week, raising \$875m. Yesterday lunchtime the company's shares were trading at \$27%, compared with a launch price of \$25, valuing the company at more than \$10bn.

has ensured a atrong stock market debut in recent days Net income at both CNA Financial, which reported results yesterday, and Cigna, which reported late on Tuesday, were distorted by investment gains.

CNA, an insurance company which is controlled by Mr Larry Tisch's Lowes gronp, bought the struggling Conti-

nental insurance company a year ago, making direct comparisons with a year before difficult.

income of \$329m, or \$5.30 a share, on revenues of \$4.3bn That compared with after-tax profits of \$153m, or \$2.44, on revenues of \$3.1bn the yaar

The insurer's earnings were

profits of \$238m, or \$3.10 a share, down from \$290m, or \$4,

The company'a operating income, though, climbed 50 per cent to \$219m, largely due to a turnround in its domestic property/casualty business and an advance in its profitable international operations.

Cigna won approval earlier this year for a controversial restructuring of old environmental and asbestos liabilities. This move which was intended to help restore the health of the group's property/casualty

Overall, CNA reported net

before.

lifted by substantial investment gains, which accounted for more than half its earnings per share for the period. While earnings from the property/casualty business rose to \$152m for the period, from \$118m a year before, pre-tax investment gains jumped to \$305m, from \$26m.

Cigna registered after-tax from the previous year.

NEWS DIGEST US chemicals group takes over rival

Uniroyal Chemicals, the speciality chemicals producer, is to be acquired by fellow chemicals group Crompton & Knowles in an agreed deal valued at about \$1.4bn, including debt. Crompton will issue stock worth \$15 for each Uniroyal share, valuing Uniroyal's equity at just over \$200m.

The combined group will have debt of about \$1.1bn. Crompton said it would slash its dividend from the current \$0.54 annually to \$0.05, as a means of paying down debt to the point where the company's dabt rating attains investment grade. Uniroyal's shares jumped \$2% to \$14% in early trading. while Crompton's rose \$% to \$16.

The deal marks the end of the company's independence after more than a century. In 1985, Uniroyal, then the third largest US tyre company, put its chemicals business up for sale to help pay down debt acquired in fighting off the corporate raider Mr Carl Icahn. Uniroyal Chemical was bought for \$710m in 1986 by financiers Mr Nelson Peltz and Mr Peter May. In 1989, it was sold to management for \$240m in cash plus the assumption of \$560m in debt. In the same year, the Uniroyal tyre business was taken over by Michelin of France.

With sales last year of \$1.1bn, Uniroyal specialises in agrochemicals and elastomers. Its agrochemicals business has at times proved controversial. In 1999 it withdrew Alar, its best known product used to keep apples fresh, on charges that it might be a carcinogen. Last month, it agreed to withdraw the pesticide propargite from use on 10 crops commonly used on baby foods, on similar grounds. Crompton & Knowles, the smaller of the two in sales terms,

made net profit of \$40.5m last year. down 24 per cent from a peak two years earlier, on sales of \$666m. The company makes dyes, flavours and fragrances, and blow moulding equipment for use with plastics.

The combined company will be known as Crompton & Knowles, and will be beaded by Mr Vincent Calarco, Crompton chairman.

Moody's Investors Service, the credit rating agency, yesterday said it had placed the rating of Uniroyal Chemical on review for potential upgrade. About \$900m of long-term debt securities were affected, Moody's said.

Tony Jackson, New York

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Air Canada increases loss

Weak domestic markets and the heavy cost of international route expansion deepened Air Canada's first-quarter net loss to C\$96m (US\$70.5m) or 62 cents a share; from C\$88m, or 74 cents, a year earlier. This was on revennes of C31.1bn against C\$1bn.

The first-quarter normally shows a loss because of seasonal factors. "International profitability will accelerate as new routes are fully established," the group said. "Air Canada will continue to focus on cost reduction and developing higher-margin markets to ensure adequate returns."

Passenger revenues rose 13 per cent overall because of strong international results. International traffic was up 24 per cent and yield increased 3 per cent; domestic traffic rose 11 per cent but revenues only 1 per cent because of fare price wars. Domestic yields dipped 9 per cent. Severe weather also hit revenues in Canada, ... -Robert Gibbens, Montrea

Petrocan considers asset swap

Petro-Canada is considering exchanging some of its interests in Canada's east coast offshore oil fields for assets of one or more international companies. Mr James Stanford, president, said in Calgary that talks were under way with several unidentified groups but would take several months to complete. He would not comment on reports that one of the companies involved was Norway's Statoil.

Petrocan owns 25 per cent of the C\$7bn (US\$5.4bn) Hibernia. project, 200 miles east of St John's, Newfoundland. It is due to come on stream in 1997, with a target production of 135,000 barrels a day. Petrocan also owns part of nearby Terra Nova, planned to come on stream in 2001, producing 100,000 barrels daily. Robert Gibbens

Disposals deepen Domtex deficit

COMPAGNIE DE PARTICIPATIONS FINANCIERES (LUXEMBOURG) S.A. Registered office: 204 Route d'Arlon, L-8010 Strassen R.C. Luxembourg B 28 500

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April 1996

Generale Bank S.A./N.V.

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ment appears in a matter of record only.

Rutland Trust PLC

£29.700.000

Senior Debt Acquisition Facilities

in support of the acquisition of

MTS (Holdings) Limited

"Thamesport"

Arranger and Lead Underwriter

Hill Samuel Bank Limited

Co-Underwrite

Generale Bank S.A./N.V.

Senior Debt Provided by

Facility and Security Agent

HILL SAMUEL

Bank Limited - 100 Wood Storest - Landon EC2P 2AJ - Telephane 0171-600 6000 at by The Securities & Furgass Authority - A member of the Lloyds TSB Group

Hill Samuel Bank Limited

BHE-BANK AG

- The shareholders are invited to attend the ANNUAL GENERAL MEETING which will be held at the Hotel L'Olivier, 140A Route d'Arian, L8008 Strassen at 2.00 pm, on 20th May 1996, with the following agenda:
- 1. To receive the report of the Directors for the year ending 31st December 1995,
- 2. To receive the report of the Anditor for the year ending 31st December 1995,
- 3. To approve the annual accounts for the year ending 31st December 1995.
- to approve the appropriation of the results, to declare a dividend of DEM 0.34 (34 Pfemigs) per share and to fix the date of payment.
 To grant discharge to the Directors with respect to their daties during the year to 31st December 1995,
- 6. To grant discharge to the Auditor with respect to their duties during the year to 31st December 1995,
 7. To increase the number of Directors to 4 (four),
- 8. To approve the appointment of Mr Andrew McGivern as a 8 Director of the
- Company, 9. To receive a report on the management policies of the Company and to adopt the same insofar as may be appropriate, ID. Any other business,
- THE BOARD OF DIRECTORS

ANZBank Australia and New Zealand **Banking Group Limited** Australian Company Number 005 357 522 (Incorporated with limited liability in the State of Victoria, Australia) U.S. \$300,000,000 **Perpetual Capital Floating Rate Notes**

For the six months 30th April, 1996 to 31st October, 1996 the Notes will carry an interest rate of 5.7125% per annum with an amount of interest U.S. \$291.97 per U.S. \$10,000 Note and U.S. \$7,299.31 per

are undetectable. Now analysts fear a law change affecting results. inflation adjusted accounts Fresh concerns have been may make many balance raised by a law passed at the sheets virtually meaningless. end of last year which determined, as part of the govern-ment's anti-inflationary tactic of removing all indexing from Lafis, a research group, studied the 1995 accounts of 66 publicly-traded companies. Using only information in the the economy, that Brazil's balance sheets, it made its own securities commission, the calculations of each company's CVM, can no longer force quoted companies to publish inflation-adjusted accounts. net profit or loss by separating extraordinary items from the company's normal activities. Of the 66, Lafis found that the These expressed results for the past year and, for comparison,

true results of 35 companies were lower than published, while 13 were higher and only 18 were the same. Extraordinary items occur in

balance sheets around the world, but Mr Jorge Kotani of Lafis says they weigh particu-larly heavily in Brazil because

redicting a company's cases must, include extraordinary items in the profit or loss line. But the law gives them room for manoeuvre. Severe doobts about the reliability of audited balance sheets surfaced recently when two high street banks revealed

Brazil groups create results jungle

with apples," says Mr lvan Clark, a partner at accountants Price Waterhouse in São Paulo. significant liquidity problems within days of issuing healthy "But even inflation of 10 per cent or 15 per cent a year accumulates very quickly."

> ne example is the petrochemicals company Copene, which pnblished results for the first quarter of 1996 } according to both methods. One set, which ignored 3.5 per cent inflation during the period, showed pretax profits lof R\$23.3m (US\$23.6m). |The second, which allowed for inflation's effects, showed profits of R\$43.5m

"Analysts must decide which result they think most accurately reflects our perfor-mance," says Mr Wong Shin, Copene's financial director. His argument in favour of

the adjusted method is simple: "If yon borrow money at 2 per

accounts were adjusted accord ing to the government's official one of the many other inflation indices available.

Not all companies will do so. WEG, a maker of electric motors, announced it would only publish unadjusted results. Mr Alidor Lneders, finance director, says that annual inflation of less than 20 per cent will have little impact on lits figures.

accounts which companies use when making operational deci-

Not publishing adjusted figures will reduce the amount of strategic information available to competitors.

This year sees an additional complication. At the end of last

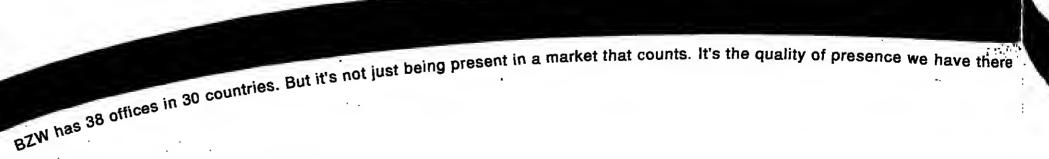
Legislation and tax disputes confuse analysts, says Jonathan Wheatley accounts but gave them the room for confusion. In the past, option of continuing to publish corrected accounts as well, "The previous system allowed us to compare apples

index, known as the Ufir. The Ufir, bowever, is being phased ont. Now companies must decide for themselves whether to adjust their results in line with the US dollar, or with any

Analysts say other compa-nies will follow WEG because adjusted accounts are very close -to the management

stons

U.S. \$250,000 Note, payable on 31st October, 1996.	of frequent changes to ftax	say comparing a company's cent a month and initation in		Dominion Textile, the international denim and non-wovens
Listed on the Luxembourg Stock Exchange.	laws and drawn-out legal dis-	performance over time will the month is 1.5 per cent, what		producer, said it would post a C\$38.2m (US\$28m) net loss on
	putes between companies and	bacome impossibly compli- is the real interest rate? Two		the sale of its nine Canadian and US yarn plants. The disposal
BankersTrust	the tax authorities, which com-	cated. per cent or 0.5 per cent?"	cent. But, by simultaneously	
Company, London Agent Bank	panies often win. That means	The CVM, which shared Even if companies decide to		about C\$110m.
	Brazilian company accounts	these fears, told quoted compa- publish two sets of results,	accounting, it ended the prac-	Including this loss and other special items, Domtex posted a
	are peppered with provisions	nies to publish unadjusted there will still be plenty of		net loss of C\$46.1m or C\$1.13 a share for the third quarter
	for future tax payments, and	the second se	to correct the values of their	ended March 31, against a profit of C\$10.1m or 22 cents a year
	with reversals of past	Brazilian company results 1995	fixed assets and net worth.	earlier, on sales of C\$266m, down 6.6 per cent. Tha loss for the
	provisions.		In the past, a company	nine months was C\$53.8m, or C\$1.37 a share, against profit of
	But companies are not	published Lafis not	whosa net worth exceeded	C\$25.3m, or 53 cents a share, on sales of C\$817m against
	obliged to show provisions for	net profit (Jose) profit (Jose) US\$m US\$m US\$m	fixed assets would see its tax	C\$794m. Robert Gibber
	future taxes on their published		base reduced. That will no lon-	
Union Bank of Norway	balance sheets - only on their	Actesita	ger happen, so capitalised com-	EDS eyes Roccade
-	unpublished statements to the	Alpargatas 27.7 (0.6)	panies will tend to fare worse	
U.S. \$27,000,000	tax anthorities. When a com-	Alpergatas 27.7 (0.6) Beigo Mintero	under the new regime, while	Electronic Data Systems the computer services consultancy
Subordinated Floating Rate Notes due 2002	pany reverses a past provision	Brahma 261.6 213.8	indebted companies will tend	being spun off from its parent General Motors, wants to
In accordance with the provisions of the Notes, notice is hereby	- an accounting procedure	Gopene 148.8	to do better.	acquire Roccade, the Dutch state-owned information
even that the Rate of Interest for the three month period ending	that creates a profit - it can do	Gosipa 73.8 (113.1)	In Brazil, where the cost of	technology company, Dutch newspapers reported. Discussion
30th July, 1996 has been fixed at 7.30% per annum. The	so at once, or over several	Betrobring 7783 (2.154.0)	borrowing is very high, well-	with the management of the former state computer centre are
nterest accruing for such three month period will be U.S. \$9,226.39	years. Some companies use	lochpe-Maxion (109.0) (146.5)	run companies are usually well	due to start next week.
er U.S. \$500,000 Note against presentation of Coupon Number 16.	these profits to cover up poor	lochpe Maxion (109.0) (146.6) Maxes	capitalisad. For many, the	Algemeen Dagblad said the approach was confirmed
mion Bank of Switzerland	operating performance.	Klabin 87.5 127.9	losses from the end of infla-	yesterday by a spokesman from the home affairs ministry.
andon Branch Agent Bank	"What companies are doing	Motat Laws (20.2)	tion-adjusted tax accounting	owner of Roccade, which is due to be privatised this year. Mr
	is absolutely and definitely	Sadia Concórdía 92.4 43.0	are likely to outweigh the ben-	Jos Schoemaker, EDS North Europe vice-president, was
6th April, 1996	within the law," says Mr	Solar Concorda 43.0	efits of lower tax rates. Compa-	reported to have said talks with Roccade management would
	Carlos Yamashita, also of	Varig (7.1) WEG S0.5 S0.5	nies and investors will have to	begin next week. He added that EDS had no interest in a
	Lafis.		wait until the end of 1996 to	hostile takeover. AFX News, Amsterda
	"They may, and in some	* Lats readjusted results excluding extraordinary heres Sources Late	find out.	



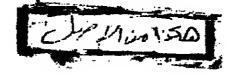


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COMPANIES AND FINANCE: ASIA-PACIFIC/INTERNATIONAL

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Giordano struggles to control its franchisees

PROFILE:

The Hong Kong retailer is in the dark as Chinese authorities force a rash of store closures, writes Louise Lucas

ranchise operators are keeping a close watch on Giordano, the Hong Kong retailer that has suffered a rash of store closures in China. Their concern is to establish whether the closures stem from poor corporate management or over-zealous government bureaucracy.

HURSDAY MAY 2 1996

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Lax management is a charge denied by Giordano, but it is the one preferred by its peers. Pinning the closures on Beijing - even claiming it is punishing the company, still, for the outspoken pro democracy viewa of its founder and erstwhile chairman, Mr Jimmy Lai - allows for the possibility that a similar fate lies in store for others setting up franchise operations in China.

To date, Giordano executives claim to be almost as much in the dark as those watching them. They have established that the 11 Shanghai stores, which accounted for 0.9 per 19 cent of the company's net turnover last year, were closed after the franchisee was ootified by the Shanghai Administrative Bureau for Industry and Commerce of its power to do so during an

investigation of possible illegal actions. Management has still not ascertained the reason behind the other 25 franchised stores closures, 20 of which subsequently re-opened.

Depressing though it may be for the competition, analysts reckon the closures may have a lot to do with doing business In China and controlling franchisees across a sprawling nation whare changing goalposts are a fact of life Mr Kent Chan, analyst at

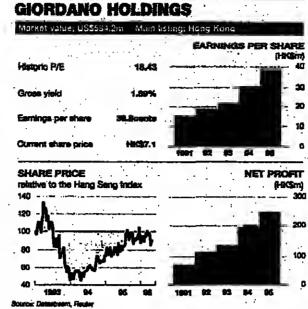
Salomon Brothers, says: "l don't think Glordano has very mnch control over ita franchisees, and that's tho whole point of franchises. You have almost no control over them, and that's why the npmarket names don't use them. The amount of controls in the best cases are limited, especially in China."

Another analyst concedes: "Giordano management is very good at working very hard to improve support in China, but I think it might be the case

that they are expanding a hit too fast." Mr Chan, of Salomon, notes that the business has grown 30 per cent over the past two years, but no new executives have been brought on board.

f franchising in China is the issne, there are ramifications for a host of shops and restanrants operating in the mainland. For example, Theme, a retailer of women's working

clothes with around 20 stores in the mainland and ambitious



notes: "If the Chinese authorities really want to pick plans to expand, has made a point of exercising tight on you, they can say they want control, as well as managing and directly owning all stores to do an audit on your books. In the strategic citiea of Gnongzhou, Beijing and Value added tax is supposed to be paid every month, but it is almost an honour system. If Shanghai. Ms Dora Hung, a retail analyst with Kleinwort they don't believe in your bcoks they can carry out an

praises Theme's Benson. strategy but agrees franchises are a potential problem. "People are starting to recognise the problem and tbey are exercising much tighter control. This is a very good lesson for all these people," she says.

A diary of problems

August 8 1994: Beijing store closed; follows criticism of Chinese premier Li Peng in Lai's Next Magazine August 12 1994; Lai resigns as non-executive chairman October 18 1994: China Resources, one of China's leading trading companies and owned by China's ministry of foreign economic trade and co-operation, sells virtually all of its 10.13 per cent stake and withdraws its representative from the board; retains 0.35 per cent October 2 1995: Lai cuts his stake from 36.4 per cent to 27 per cent

February 28 1996: Lal sells his remaining 27 per cent March 1996: Eleven franchised Shanghai stores closed March & April 1996: A further 25 franchised stores closed, 20 of which re-open

wryly: "That's certainly not the case, but you cannot control what the Chinese authorities think."

Brokers are also divided on whether Mr Lai is still the maverick voice he once was. Some say he is still outspoken in Next Magazine and Apple Daily, the Chinese language newspaper he launched last уеаг,

But the staple fodder of the newspaper veers much more towards salacious gossip, scandal and horrific accidents: and the magazine, too, has moved far from the days

Punishment for Mr Lai's views, real or imagined, has never seriously dented Giordano's share price for

> **T**S and European institutions have been employees. firm fans of Giordano, buying up stock and absorbing ing that the bid premium placements even after Mr Lai's blistering attack on China premier Li Peng in his weekly Next Magazine resulted in the closure of the Beijing

his own suspicions about the bull fervour on the stock, notes: "Hong Kong companies are never the same once the founder gets out, unless you are very lucky. And yet the stock was going up to record levels and institutions went into the placement [when Mr Lai sold out] like lemmings."

Pacific BBA in A\$275m bid to acquire Azon

By Nikki Tait in Sydney

tunities

"provide strong growth oppor-

offshore operations, it said.

two Azon shares, or a straight

cash alternative of A\$2.10 per

Azon share.

The cash offer is worth only 10 cents more than the price at which Azon shares were floated three years ago. It is also only a fairly modest pre-Pacific BBA, the Australian manufacturing group, yester-day launched a hostile A\$275m (US\$216m) hid for Azon, the mium to the A\$1.90 price at which Azon shares closed on former manufacturing division of the Boral building materials Tuesday night. Yesterday, they ended well above the hld price - at A\$2.21 - suggesting that traders expect a higher offer at group which was floated on the stock market three years ago. The hidder said that merging the two operations should some stage. Azon is involved in a wide

range of industrial products from conveyor belts to insect screening and other wire mesh The larger size would proproducts.

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vide a broader revenue base, Shareholders have had a humpy ride since the stockand allow for the expansion of export-related activities and market debut, with their The comhined group would investment initially going to a significant premium over but then falling back to less than have annual sales of around A\$780m, and about 6,000 the float price.

Profits after tax in the However, Azon told share-1991-95 financial year were holders to take no action, say-A\$24.5m, but the company has warned of a lower figure in the current period. Pacific BBA, on the other

hand, is mainly involved in automotive components, plastic products, and constructionrelated supplies. It made an after tax profit of A\$25.3m (before abnormals) in 1995. The company indicated that it expected the current year to be slightly lower at A\$23.1m. hut said the ontlook for 1997 suggested around A\$35m.

Taspen plans to sell half its stake in Barito Pacific

By Manuela Saragosa in Jakarta

Taspen, one of Indonesia's largest state-controlled pension funds, plans to sell half of its 17 per cent stake in Barlto Pacific Timber, the Indonesian logging company which ranks as the world's largest exporter of hardwood plywood.

South African department of that wants to merge with Lon-The finance director at foreign affairs endorsed the rho's platinum division. Taspen, which does not usually "I wouldn't like to defy the merger and urged the EC to act release details of its investments, was quoted by the national daily newspaper commission, hnt I am quite "on actual cases of collusion" happy to challenge them." rather than targeting market Bisnis Indonesia as saying that Impala's appeal to the Eurodomination as a potential basis pean Court will he closely for anti-competitive behaviour. the pension fund wants to sell Mr McMahon held four meetwatched by Anglo American, 100m of the 250m Barito Pacific which earlier this month acquired 9 per cent of Lonrho shares it holds. He did not say Michael McMahou: "The merger may be on a life support, but it ain't dead" ings with the court during the me is that it rse of te inoniev en or to ' attempt to pre-empt its objec-tions. "We offered to make it because that's just another mission's satisfaction, this with an option to huy a further ruling was prejudiced by specconcentration and the EU will get excited," Mr McMahon 18.5 per cent from the chief ulation over Anglo's interest in would have been agreed before the ruling. Impala, which is executive, Mr Dleter Bock. Lonrho: "Basically, all that an indivisible part of the agree-Taspen finance director, said talk [over the role of Anglo] has muddled the water." After 46.5 per cent owned by Gencor, and Lonrho together supply ment that we would not limit supply. We said 'if we don't do Although Anglo has ruled out says. tha divestment was motivated by "purely business reasons". a general bid for Lonrho, most Consequently, Lonrho may analysts believe it is poised to take control of the mining divia four-month enquiry, the court rejected the merger on review its announcement, about 28 per cent of the world what we have promised we'll adding that Barito Pacific had platinum market. Amplats' heen exposed to tougher made in the wake of the comdo, the EC can unwind the merger'." The commission was sion earmarked for demerger the grounds that it would mission ruling, that it would market share is 35 per cent. foreign competition in exports by Mr Bock. Mr McMahon is adamant not join Impala's appeal to the European Court. Dieter Bock Russia supplies about 23 per cent, but did not participate in of plywood and that Taspen had already sold 25m Barito unswayed. create a duopoly of two dominant platinum producers, Impala/Lonrho and Anglo Both Lonrho and Billiton, a Gencor subsidiary, are based in the UK, although Mr McMahon insists the EC's jurisdiction has "almost nothing to do with the domicile of the companies. has not said anything. Lonrho that if Impala can avoid the the commission's enquiry. Pacific shares, reducing its have got their interests, and American's Amplats, which The veto has prompted stake to 17 per cent from 17.9 commission's censure, Anglo's per cent previously. Barito Pacific said last week ambltions will not obstruct the merger of Lonrho's platinum assets. The plans wera con-'I wouldn't like to defy the EC, but I am quite happy to that its audited net income in They can go right through the 1995 shumped by more than 50 ceived in 1989, when Impala challenge them' - Michael McMahon, Impala chairman took a minority stake in Loncorporate world if you or your per cent to Rp70.12bn (\$30m) against a year earlier with high net interest income parent company have got assets in Europe." rho's Eastern and Western could restrict the snpply of gencor has its objectives and so does Impala. There is a debate over the merits of the Platinum mines, a year before tha commission was given so does Impala. There is a court's jurisdiction in Africa, Mr McMahon dismisses specaccounting for about 90 per When the commission announced its finding last responsibility for vetting mergpoint at which those interests which analysts expect will ulation that when Lonrho's cent of the pre-tax profit coincide, and that's the merger." In the meantime, form the basis of an appeal hy Impala. The grounds for a chalmining division could be listed outside Europe when it is figure. The company has consistently failed to meet its ers hetween large European companies. week, it issued a warning that We've got 27 per cent of the any subsequent attempt by Impala is exploring ways of lenge to the court's jurisdiction demerged. "Companies who profit forecasts since its initial existing asset, an option over Anglo to acquire Lonrho's platrestructuring the merger or aspire to be international compublic offering in 1993. are largely unexplored. In addition to reducing its stake in Barito Pacific - which Less than 15 per cent of panies cannot delist to avoid the European Commission. But I can structure this transaction the other 73 per cent and an inum interests would also be moving it outside the commis-Impala/Lonrho's annual plati-num production of 1.1m oz agreement to merge. The vetoed. "I don't think there are sion's jurisdiction. But most analysts believe options here that allow Anglo is controlled by Mr Prajogo merger may be on life support, but it ain't dead." that if the deal could have would be exported to Europe. such that it falls outside their Pangestu, who has close to extend direct influence over He believes the commission's connections with Lonrho's platinum division been restructured to the comwell helow the 25 per cent rules."

presidential family - Taspen also plans to divest part of its 17 per cent stake in Plaza Indonesia Realty, controlled hy President Subarto's second son, Mr Bambang Trihatmodjo, and the engineering company Bukaka Teknik

Mr Kosasih said the divestments were not related to other things", which some analysts interpreted as an oblique reference to the fact that the founding shareholders of the three companies are politically well-connected.

The pension fund's professionalism has heen questioned in the past, specifically in relation to a

AirNZ sees Ansett float in a 'few years'

By Nikki Tait

Alr New Zealand has confirmed that a flotation of Ansett, the Australian airline, is a possibility in a few years' time - assuming its plan to huy a 50 per cent stake in the carrier from Australia's TNT first wins regulatory approval. Mr Jim McCrea, Air New Zealand managing director, raised the idea in Auckland, hut suggested that several years' work would be required

Under the revised Air NZ/ Ansett plan, Mr Rupert Murdoch's News Corporation which holds the other 50 per cent of Ansett - Is due to acquire all of Ansett New Zea-land. The hope is that it will satisfy New Zealand's competition anthorities. Ansett New Zealand is the only leading domestic competitor to Air NZ. • Gold Mines of Kalgoorlie, part of Mr Robert Champion de Crespigny's stable of mining companies, said yesterday it had sold its Jubilee gold opera-tion to Copperfield Gold, a small listed exploration group, for A\$20.5m (US\$16.11m). Part of the payment is in shares, which could give GMK up to 20 per cent of Copperfield's equity. • Broken Hill Proprietary, the Australian resources group, is to carry out a feasibility study on a A\$130m ammoninm nitrate plant in Queensland. The proposed plant, which could source its gas feedstocks from the coal-hed methane availabla from BHP-managed coal leases in the area, would produce about 140,000 tonnes of ammonium nitrate a year. This would used for explosives in mining operations.

Impala intent on leaping European fences SA group plans to overcome veto of merger with Lonrho platinum arm, says Mark Ashurst

We have turned ourselves inside out to try to see what can he done to make this merger acceptable to Brus-sels," says Mr Michael Mahon, chairman of Impala Platinum. the Sonth African producer

threshold which is one of sev eral criteria governing the commission's intervention. The merger has also been cleared hy the South African Competition Board, contrary to a claim last week by the EU competi-tion commissioner, Mr Karel van Miert, that the South African anthorities supported its

ruling In a letter to tha European Union dated April 19, the

offered by Pacific BBA was "considerably less than would be expected in the case of a typical unsolicited offer". Pacific BBA, which was origshop. inally controlled by the UK's One broker, who harbours BBA group until the parent divested its 58 per cent shareholding in 1993, is offering either one of its own shares and ASI.45 in cash for every



remaining ties with the company by selling his final 27 immediately after the per cent stake in it Another analyst at a Tiananmen Square massacre European securitias house Analysts who believe Mr Lai in June 1989.

investigation or audit in the shops, and that may mean

Mr Lai atepped down as

non-executive chairman in August 1994 and in February of

this year he severed his

closing them down."

is still the crux of Giordano's problems reckon Beljing is convinced he retains an interest in the company, possibly through a nominee or long. related trust. Says one analyst

> would be sold. Mr Rukhiyati Kosasih.

which amounted to pre-IPO clean-ups of balance sheets," an analyst at a foreign securities house in Jakarta said.

Prior to Barito Pacific's IPO in 1993, the logging company's founding shareholder was summoned to Indonesia's parliament to explain why Taspen had taken a 20 per cent stake in the company for Rp375bn.

The deal valued the company at Rp3,000 a share, compared with the anticipated Rp7,200 price at which the planned flotation was to be set.

Taspen is estimated to have about Rp9,000bn in funds of which, under government regulations, only a limited portion is allowed to he invested in the stock market. News of Taspen's planned divestment caused shares in Barito Pacific to plunge nearly 10 per cent to Rp2,075 in early trading yesterday before recovering to close at Rp2,225.

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Thich is why our combination of network and reputation brings access to the World's investors in Asia Pacific, Europe and North America within your grass

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COMPANIES AND FINANCE: EUROPE

Banco Santander to buy out partner in CCH

By George Graham, Banking Correspondent

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Banco Santander, the Spanish banking group, is to pay DM300m (\$195.6m) to buy out the 50 per cent stake held by its partner, Royal Bank of Scotland, in CC-Holding, parent company of Germany's CC-Bank consumer finance group

CC-Bank, largely based in the Rhineland, was one of the operations turned into a joint

RBS formed their partnership in 1988. The two banks each took 50 per cent, but said yesterday that it had gradually become clear that it would be more practical to have a single owner.

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Santander offered to buy out **RBS's stake in CC-Holding for** a price equivalent to 27 times 1995 net earnings of DM15.4m

Mr George Mathewson, chief executive of RBS, said the venture when Santander and investment in CC-Bank had Portugal and in the Ibos

been a successful one. "We cross-border payments system. believe the price paid is a fair one," he said. **RBS** and Santander remain closely linked in other ways, dealers.

notably through their crossed shareholdings. Santander now owns 9.9 per cent of RBS, while RBS has been gradually increasing its stake in Santander this year to 4.3 per cent. With the exercise of an option, that is expected to rise shortly to 4.9 per cent. The two are also allied in

This means more disclosure

German banks will certainly

he talk in German bank-

ing circles is of possible

amalgamations or even

urities and Futures Author

CC Bank's principal line of business is financing sales of around 13,000 car, furniture and alectrical equipment

The bank incressed its lending volume by 11 per cent last year to DM2.61bn, and its customer deposit base by 20 per cent to DM3.07bn.

RBS will receive DM206m from Santander for its 50 per cent equity holding in CCH. This payment will take the form of loan notes, guaranteed

maturity of 20 years.

The loan notes ars redeemable after 10 years, but RBS said it had no plans to dispose of them before redemption.

RBS also owns DM94m of loan capital in CC-Holding. which it will sell for cash, plus accrued interest.

The sale is expected to improve RBS's tier 1 capital ratio, which stood at 6.3 per cent at the end of November 1995, by around 30 basis points.

by the Spanish bank, with s It will improve the bank's overall capital ratio, 10.3 per cent at the end of November,

by 10 basis points. RBS is due to report its interim results for the six months to the end of March next week.

They are expected to have suffered from a downturn in profits at Direct Line, the bank's insurance subsidiary, which has been hit by the rising cost of claims and by fisrce competition ovsr premiums in the UK market.

Lawyers strive to keep parts of 4 **Bremer** afloat

had not been abls to meet the

which requires a company to

owes within 18 months. Bremer Vulkan would only 8

another lawyer handling the

Vergleich for these companies. Mr Wellensiek said he was

Atlas Elecktronik, the Bremer is

Vulkan electronics subsidiary.

Mr Udo Wagner, who took¹³ over as Bremer Vulkan chief

executive in February, yester-

day left the group, saying there"

conditions of the Vergleich.

By Michael Lindemann in Bonn

Bremer Vulkan, Germany's largest shipbuilder, yesterday pay back 35 per cent of what it said it was bankrupt after it failed to reach an agreement with creditors.

have been able to pay back 10²⁰ per cent of its debts in that period Mr Wellensiek said 9 However, lawyers who have period, Mr Wellensiek said, ⁹ adding that the company had^{1,7} been trying to keep the 102year-old company afloat since assets of DML11bn and liabili-Ta Fsbruary said three ships were ties of about DM2.5bn. still being built at yards in Bre-The bankruptcy affects the 2 group's headquarters in Bre-12 men and Bremerhaven, the two north German towns men and three subsidiaries -in where the group is based, and Vulkan Schiffbau Verbund that they were also in talks to build further ships which could be built by parts of the Vulkan Werft and Schichau Seebeckwerft ~ which together 74 employ about 4,200 people. employ about 4,200 people. There is a possibility a num-¹⁴ ber of other shipbuilding sub-¹⁴ sidiaries, including Lloyd¹⁷ Warft and Geestemetallban, ¹⁴ could survive, according to ¹⁴

group not yet bankrupt. Meanwhile the city state of Morgan Grenfell's deal-making Bremen, which had extended guarantees of DM900m (\$587m) to the company because it was the region's biggest employer, yesterday warned that DM300m of those loans might not be recovered. also talking to a number of companies abont the sale of d

Bremen is already the most heavily indebted of Germany's 16 Länder or states. A consortium of more than 30 banks, ied by Commerzbank, Dresdner Bank and Bremer Landesbank. is owed a further DM2.9bn. Mr Jobst Wellensiek, the

was nothing more he could do lawyer who has been handling now that bankrupicy proceed 12 ings had been opened. the rescheduling of the compa-ny's debts, said Bremer Vulkan

Poland to cut coal production by 18%

By Christopher Bobinski in Warsaw

The Polish government yesterday approved a coal industry restructuring programme that is aimed at cutting output from last year's 135m tonnes to 110m tonnes in tha year 2000 while increasing productivity by 25 per cent by the end of the century. The plan, for what is now

Europe's largest coal producer, also means the loss of 80,000 jobs in an industry that expects to be employing 174,000 people within five years. The move is to be underpinned by 4.5bn zlotys (\$1.8bn)

worth of subsidies over this period, said Mr Klemens Scierski, the industry minister. The funds are to go on new equipment, unemployment pay-ments and to cover the costs of " up to 20 pit closures. The industry also hopes to cap its debt at its present 8bn zlotys. "" Mr Jerzy Markowski, the deputy industry minister responsible for mining, is. promising a return to profit in

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ability by 1998 for the industry.¹⁹ which is expecting to report a 740m zlotys loss this year. At the same time the govern-

At the same time the govern. ment has told the industry that domestic coal prices should rise no faster than inflation.

An invitation to lend an ear to the talking banks

Investors have welcomed the greater openness of German financial institutions, writes Andrew Fisher

erman banks used to J be tight-lipped about their financial performance, revealing only the most basic figures. Now, however, they are becoming positively

Terms such as shareholder value, return on equity and international accounting standards trip off executives' tongues as if they had been learnt from childhood.

Not that these concepts were previously unknown. It is just that the hig German banks are taking to them with a wholeheartedness that would hava been unheard of a few years

As a result, analysts hava been confronted with a welter of new data in the latest reporting season, in which profits were markedly better than in the lacklustre year of 1994. Deutsche Bank disclosed its hidden reserves; Dresdner Bank did the same, and added its property assets for good asure: Bayerische Vereinsbank gave a sectoral breakdown; and Commerzbank gave divisional profits. Banks also gava datailad information about risk provisions.

Deutsche Bank led the way among German banks by moving to international accounting standards (IAS). The idea is to give shareholders a greater insight into its financial performance, making it easier to raise money on international capital markets, "In our information society, thare is demand for intelligent openness," said Mr Jürgen Krumnow, a director of the bank.

German banks are revealing, Deutsche Bank revealed hid-den reserves of DM20hn (\$13bn), representing the differtheir greater openness bas been welcomed by financial markets. "I think investors ence between the book value of respond well to having the its myriad shareholdings in companies such as Daimler-Benz and Allianz insurance extra information," says Mr John Leonard, banking analyst

at Salomon Brothers in Lonand their market value. Mr Hilmar Kopper, chair-man, said the decision to move don. He also thinks banks' increased concentration on to LAS - which is less consershareholder value - involving vative than the creditormore effective use of assets, closer attention to costs and oriented German system and allows closer comparison with foreign banks - fitted its global awareness of the need to earn better returns - is positive. strategy. "The aim is full dis-We're talking about more closure of our figures and tarthan lip service here." gets."

Other banks are following. in difficult times as well as good, Mr Leonard adds. "Once although not so enthusiastically or comprehensively. they've taken the step of open-Dresdner Bank satd its hidden ing up, they'll have to stay reserves were DM9bn, or open. So if things deteriorate DM17bn if property and other holdings were included. Comthey can't just paper this OVER. merzbank declined to give this figure, but has provided more have to look to their laurels if details of regional and divithe competitive threat highsional activities.

lighted by the attempt of CS Holding of Switzerland to merge with UBS becomes a One disturbing aspect of the banks' performance last year was the weak domestic showreality, Although this failed, ing compared with the more tha prospect of a big new rival dynamic trend abroad. The across the border sent a frisson tough domestic market, with through the German banking the economy slack and interest community. rate margins flat, continues to

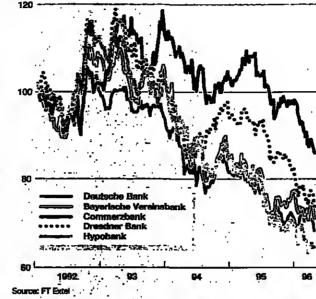
hamper profits growth in 1996. Banks are cautious about the rest of the year. "All banks said uni sono that the first two takeovsr moves by Swiss months were very good," says Mrs Christine Winkler, bank-ing analyst at Bayerische institutions in Germany. Commerzbank, the third-larg-est German bank, is regarded Hypotheken-und Wechselas a likely object of Swiss Bank. "But they warned interest or as a possible candiagainst extrapolating from this date for a merger with one of for the whole year." its domestic competitors. At In spite of the mixed picture this stage, however, there is

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German banks underperform

Share prices relative to the Dex Index



How the big German banks fared last year

DM bn

Deutsche Bark 210 +24 Dresdner Bank 1.99 +22 Commerzonne 145 +108 +22 1.21 +17 Con Boyerische Vereinsbank 1.38 +30 0.66 +16 Beyerische Apro Best 21 - 21 - 0.68 +30 " on LAS Anternal

more speculation than action. But the events in Switzer- have been moving into invest-ment hanking and asset manland showed the need for Geragement. Deutsche Bank plans man banks to reinforce their to raise its spending on the competitive position. Spearinvestment banking side to headed by Deutsche Bank, they DM700m this year as Deutsche



for Reconstruction and Development ECU 450.000.000

Floating Rate Notes due 2002

expertise and trading systems are developed further. Mr Kopper intends investment bank-ing eventually to provida a third of profits. anks are also striving to

B satisfy their domestic customers and trim their high domestic cost base by moving deeper into electronic banking. Vereinsbank has just opened its Advance Bank to appeal to customers wanting sophisticated cash management and mutual fund advice without the inconvenience of going into a branch. Other big banks have also gone down the direct banking route, although Dresdner Bank is waiting to see how the market develops. "They certainly

have a concept in the drawer and I am certain they will do it," says Mrs Winkler. "Bnt they will wait until the time is ripe." Dresdner is concerned that the costs of acquiring new direct banking customers, who can easily switch loyalties, outweigh the advantages.

Whichever combination of electronic services, investment banking activities and corporate finance and treasury business German banks choosa, costs will remain high. Banks are trying to rein back spending growth, weighing the benefits of innovation against the

need for cost control. By embracing the idea of shareholder value, they have committed themselves to keeping this balance as fine as possibla. Investors will watch closely to see they do not trip.

Payment of Dividend

Innovation in the German equity-linked market



Ø

Deutsche Finance (Netherlands) B.V.

DM 1,000,000,000

1% Deutsche Mark Global Bonds of 1996/2001 200,000 Bonds of DM 5,000 each

unconditionally and irrevocably guaranteed by

Deutsche Bank Aktiengesellschaft

exchangeable into Shares of

Allianz Aktiengesellschaft Holding

Date of issue: May 2, 1996 issue price: 86.64% Conversion premium: 25% Yield to maturity: 4%

Deutsche Morgan Grenfell Deutsche Bank Aktiengesellschaft

Morgan Stanley & Co.

UBS Schweizerische Bankgssellschaft

Bayerische Vereinsbank AG CS First Boston Effectenbank

Goldman, Sachs & Co. oHG

Commerzbank Dresdner Bank-Kisinwort Benson

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Deutsche Morgan Grenfell

In accordance with the provisions of the Notes, notice is hereby given that the Rate of Interest for the that the Rate of Interest for the three month period ending 30th July, 1996 has been fixed at 3.66406% per annum. The interest accruing for such three month period will be ECU 46.31 per ECU 5,000 Bearer Note, and ECU 926.19 per ECU 100,000 Bearer Note, on 30th July, 1996 against presentation of Coupon No. 17. Union Brack of Switzerland Loudon Branch Agent Bank 26th April, 1996 ANZBank Australia and New Zealand Banking Group Limited ACN 005 557 522 £200,000,000 ing Rate Notes due 1997 is hereby given that for the Period 25th April, 1996 no 7, 1996, the Notes will carry Interest of 0.1875 per cent. per The Amount of Increase per Note will be £153.84 and per Note will be £153.84 and per Note will be £153.84 and per Note will be £153.84 and per 10.000 sted on the Lasenbourg S

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May 2, 1996 By: Citicorp Tru

Any such notice of reder

NOTICE IS GIVEN to shareholders that following a resolution passed at the Annual General Meeting of sharebolders beld on 30 April, 1996 a dividend for the year ended 31 December, 1995 of DM 13 per share of DM 50 par value will be paid as from 2 May, 1996 against delivery of Conton No. 59 from shares of DM 50 or Coupon No. 10 from London Deposit Certificates of DM S.

Dividend of 20 % will be subject to German Capital Yield Tax of 25 % and 7.5 % solidarity payment charged on the capital yield tax.

Coupons may be presented as from 2 May, 1996 to

S. G. Warburg & Co. Ltd. Paying Agency **2** Finsbury Avenue London EC2M 2PP

from whom appropriate claim forms can be obtained.

The dividend will be paid at the rate of exchange ruling on the day of payment.

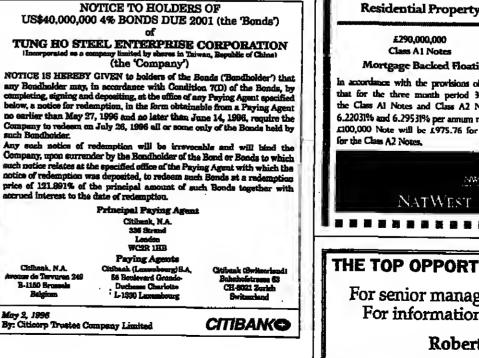
Payments in respect of London Deposit Certificates will be made at the rate of exchange ruling on the day of receipt of dividend on the underlying shares deposited in Germany.

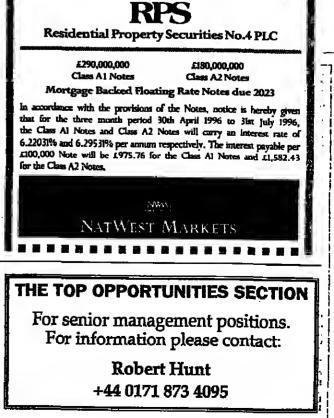
United Kingdom Income Tax will be deducted at the rate of 5 % unless claims are accompanied by an affidavit.

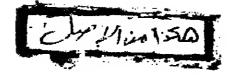
German Capital Yield Tax deducted in excess of 15 % is recoverable by United Kingdom residents, and the Company's United Kingdom Paying Agent will, upon request, provide holders with the appropriate forms for such recovery.

Hoechst Aktiengesellschaft Frankfurt am Main, May 1996









Advance limited by £5.9m restructuring charge

strive parts of ! afloat

URSDAY MAY 2 1996

had not been able to meet the conditions of the very buy which requires a company to pay back 35 per cent of what a ownes within 15 months Bremer Vulkan woold Bremer Vulkan would and Bremer Vulkan would out i have been able to pay back in per cent of its debts in the period. Mr. Wellensiek Sid period. S.: Venensiek sid assets of D.V. 115n and inst-ties of abcut D.M. 55n The Sankrupto affects (group's tradquarters in br then and three subsidiaries Villian Son.ifbau Verhau Vellage West and school Seeten which toget Seel elsevent - Munch togele entrelis doctat 4200 people There is e possibility a ma ber of there snipbuilding sh signarity is cluding the signarity of these signarity Jeestemetalla service according w asse comp wiek said he w to a number of a number of sourt the sale of sources subsidiar agner, who for

Fremer Vulkan de f thruary, year Lu. SZTIQUE Tore of tout a

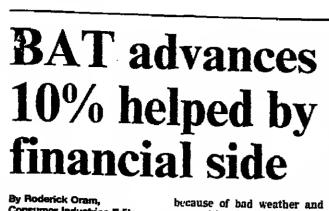
to cut coal on by 18%

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FINANCIAL TIMES THURSDAY MAY 2 1996

Consumer Industries Editor

BAT Industries reported underlying first quarter profit growth of 10 per cent with its tobacco husinesses performing slightly worse than forecast and its financial services marginally better. Including a £34m gain on the sale of a Chilean food husiness. cent at £402m.

in £600m. "This is a very steady start to 1996." said Mr Martin Broughton, chief executive. Some analysts slightly shaved their year-end forecasts to about £2.55bn, against nor-malised profits of £2.44bn.

Details of a previously announced reorganisation of its financial services arm, including Allied Dunbar, Eagle Star and Farmers, was likely tn herge in the second half. Mr Broughton said. Financial services trading

profits rose 2 per cent to £255m with general insurance, life and investment businesses slightly ahead. Good growth from Farmers in the US compensated for lower UK profits from Eagle Star (£31m, down 23 per cent) and Allied Dunbar

By Motoko Rich

year's level.

(£46m, down 15 per cent). Eagle Star's underwriting loss doubled to £47m mainly

fall "substantially below" last

Analysts cut their 1996 fore-casts from £45m to £40m as the

group, which suffered a 12 per

cent fall in 1995 pre-tax profits

to £40.4m, told its annual meet-

ing that sales in the US were down 30 per cent year-on-year

Acquisitions behind Danka's rise to £53.9m By Geoff Dyer Acquisitions helped Danka Business Systems, the fastcompetition in car insurance.

growing office equipment sup-plier, to improve annual profits An £18m rise in investment returns to £72m, however, soft-ened Eagle Star's profits fall. by 19 per cent from £45.4m to £53.9m (\$81m). Turnover jumped 54 per cent to £793m Allied Dunbar's new business premiums rose 31 per cent (£516m), with about 50 acquisias confidence among consumtions the group made over the ers and distributors continued year adding £183m to sales. to recover gradually. Total pre-The shares, which rose mium income was up 16 per strongly before the results, fell 6p to 792p, although the figures Tohacco trading profits were were in line with forecasts. up 9 per cent at £358m thanks Analysts said there had been some profit-taking to cigarette volumes rising 4 per cent and exports 6 per cent. **Operating profits increased**

Profits at Brown & William-38 per cent to £69.2m (£50.3m), son, its US subsidiary, were up £15.9m of the rise coming from acquisitions including Octo-ber's £109m purchase of 9 per cent to £156m but its market share slipped one percentage point to 17.5 per cent. Netherlands-based Infotec. BAT said it was experiencing Profits were held back by £5.9m exceptional charge for

nn adverse impact from tobacco litigatinn in the US. Its prorestructuring receotly acquired international businesses and a posed sale of minor brands to Lorillard, however, has been further £1.2m cbarge for the early repayment of borrowings. Profits in Germany were Mr Mark Vaugban-Lee, chairman, said there was still burt by increased marketing

considerable scope for further acquisitions which would add at least 15 per cent to annual years. The group's market

On the positive side, Australia was beginning to recover.

PROFILE DANKA BUSINESS SYSTEMS Market value: £1,73bn Share price: 792p -5p

COMPANIES AND FINANCE: UK

1995 1996 £115m £186.3m £347.2m £515.7m £793.0m Pre-tax profit £10.8m £17.5m £32.0m £45.4m £60.9m Earnings per share" 6.7p 10.60 11.8p 16.8p 21.50 Dividend per share" 0.90 1.1p 1.5p 1.80 2.20 1992 & 93 Equips restated to reflect 4-1 share split in July 1993

SHARE PRICE relative to the FT-SE-A All-Share Index 140 ~~~ ce: FT Extel

share was only 6 per cent in the UK, 3-4 per cent in North America and 2 per cent in continental Europe, he said. The group has drawn \$110m (£72.8m) from a new \$400m borrowing facility negotiated in February. Due to goodwill

Mark Vaughan-Lee, chairman write-offs from acquisitions, it had net assets at the year end of £11.8m (£24.6m). Under US

accounting rules, where goodwill is written off through the profit and loss account, net earnings increased 16 per cent to \$45.2m (\$39m).



The two founders of Pet Plan, who each invested £250 in the animal health insurer 20 years

ago, have sold the group for £32.5m (\$49m). Ms Patsy Bloom, the former secretary who founded Pet Plan, and business partner Mr David Simpson each realised about £16m as a result of the sale to Cornhill Insurance, the UK subsidiary of Allianz, the large German ins

The deal follows of two decades of galloping growth for Pet Plan, the UK's largest borse insurer, after Ms Bloom spotted an opportunity for providing protection against high veterinary bills.

Pet Plan has 400,000 policybolders, covering dogs and cats as well as borses. Its premium income is about £40m The sale came as Churchill, the UK telephone-based motor and bousehold insurance arm of Swiss insurer Winterthur, and Direct Line, the telephonebased company. announced pians to enter the animal insurance market

UK textiles Yesterday's profits warnings from Courtaulds Textiles, its **UK textile industry** second in five months, was Textiles and Apparel relative to the Al-Share (FT-SE-A indices) depressingly familiar. Over the past 10 years, investors 130 in textiles have lost their 120 shirts. The sector has under-110 performed the market average by nearly 60 per cent. The market capitalisation of 100 all 60-odd quoted textile stocks now adds up to only £4.6bn - the size of one middle ranking FT-SE 100 com-pany. The reasons are not hard to find. Clothing con-80 50 ----sumption has declined as a 1966 88 90 92 94 96

LEX COMMENT

23

proportion of disposable income, from 7 per cent in 1975 to less than 5 per cent now: and clothing prices have agged behind inflation over the same period.

Competition from countries with lower labour costs has steadily intensified and last year the industry had to cope with unusually warm weather and wild swings in raw material

That does not mean there are no textile companies in which it is worth investing. Those, like Dewhirst, Claremont and Sherwood, which have been fleet of foot in moving production offshore while cutting costs in the UK have consistently produced returns on capital of 20 per cent or better. But the sector's performance has been dragged down by the bigger companies - Coats Viyella, Courtaulds Textiles and Dawson International - which have been much slower to react. Dewhirst and Sherwood source nearly 50 per cent of their lingerie and garments from overseas. For Courtaulds, the comparable figure is 12 per cent and at Coats it is even lower, With the threat of a minimum wage and the gradual phasing out of quotas on imports, the big UK manufacturers have their work cut out for them.

Courtaulds Textiles warns as US sales fall because of destocking. The US business was likely to make a Shares in Courtaulds Textiles, "small loss" in the first half. the UK's second largest cloth-The shares fell 45p to 373p.

ing and fabric manufacturer. plunged more than 10 per cent The group said lace markets yesterday as the group warned in continental Europe were of a severe drop in US sales softer than expected. would cause interim profits to

Margin pressure from raw material price rises in 1994 and 1995 were forcing it to follow rivals in raising the proportion of garments made outside the UK in the lower-wage economies of Asia and North Africa. Lex, Page 23.

BAT INDUSTRIES

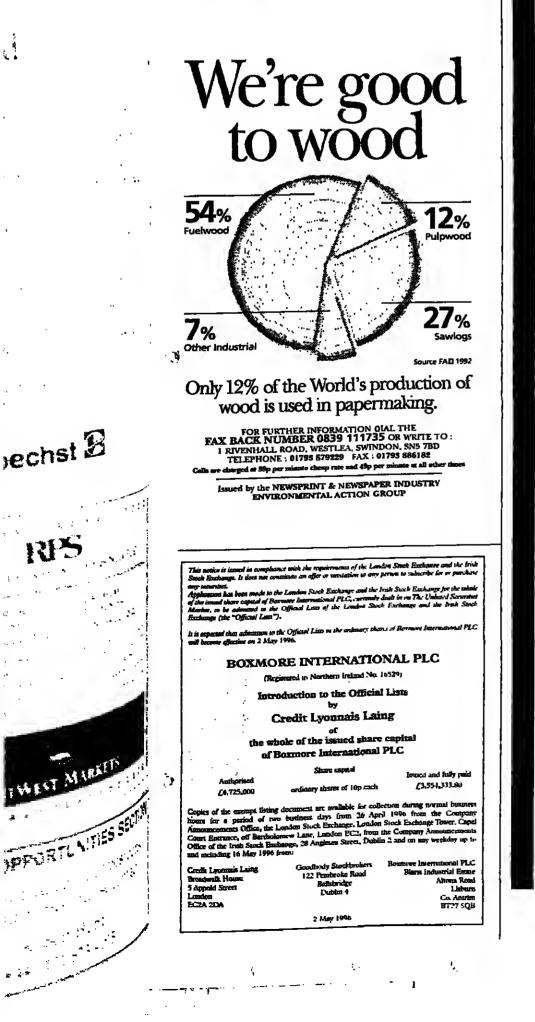
"Steady progress in 1996"



export volumes to China were up by £1bn and Asian markets generally grew well.

blocked by US regulators.

lower at £25m.



	Three months unaudited results to 31 March 1996			
PRE-TAX PROFIT	£600m	+16%		
EARNINGS PER SHARE	11.6р	+17%		

Pre-tax profit up by 10 per cent on an underlying basis, excluding the £34 million profit from the sale of the Group's food operations in Chile.

Financial services profit up 2 per cent at £255 million. Good performance from Farmers and encouraging trend in UK life, but UK underwriting results deteriorated in the general business.

Tobacco profit up 9 per cent at £358 million and volumes up by 4 per cent against last year's strong first quarter. Sales of both US and UK international brands once again made good headway.

"In terms of the year as a whole, we anticipate making steady progress in 1996. This should enable us to continue to reward our shareholders with long term superior total returns."

Lord Cairns, Chairman

The full quarterly report is being posted to shareholders and copies are available from the Company Secretary, B.A.T industries p.I.C., Windsor House, 50 Victoria Street, London SW1H ONL

REPUBLIC NEW YORK CORPORATION SAFRA REPUBLIC HOLDINGS S.A.

Consolidated Statements of Condition and Summaries of Results

These statements and summaries represent the consolidated accounts of Republic New York Corporation and its wholly owned subsidiaries and of Safra Republic Holdings S.A. and its wholly owned subsidiaries. Republic New York Corporation owns 49.2% of Safra Republic Holdings S.A., which is accounted for by the equity method.

		NEW YORK RATION	SAFRA REPUBLIC HOLDINGS S.A. March 31,		
	Man	ah 3I,			
	1996	1995	1996	1995	
ssets		(in thousands of USS	except per share date)		
Lash and due from banks	\$ 747.767	\$ 808,158	\$ 36,176	\$ 52,561	
nterest-bearing deposits with banks	6,003,656	8,489,948	5,777,815	6,131,528	
recious metals	1,145,745	1,493,440	—		
nvestment securities	19,301,429	11,426,425	7,956,072	5,628,582	
rading account assets	3,580,673	4,310,232	139,025	215,515	
ederal funds sold and securides purchased					
under resale agreements	890,924	2,399,383			
oans, net of unearned income	11,062,712	9,057,636	1,423,509	1,302,712	
llowance for possible loan losses	(339,209)	(318,138)	(129,537)	(137,321)	
.oans, (net)	10,723,503	8,739,498	1,293,972	1.165.391	
ther assets	4,750,562	4,681,131	473.443	392,953	
otal assets	\$ 47,144,259	\$ 42,348,215	\$ 15,676,503	\$ 13,586,530	
isbillties:	_				
otal deposits	\$ 29,106,509	\$ 23,301,948	\$ 12,077,857	\$ 10,310,536	
rading account liabilities	3,157,109	4,135,576	93,215	157,655	
hort-term borrowings.	4,053,311	4,458,989	1,367,562	1,046,829	
Other liabilities	3,892,478	3,621,327	472,332	325,504	
ong-term debt	1,499,037	1,767,119	175,000	430,000	
abordinated long-term debt and perpetual capital notes	2,406,463	2,406,279		_	
hareholders' Equity					
Cumulative preferred stock	575,000	672,500	i		
Common stock and surplus, net of treasury shares	843,891	693,224	889,232	905,042	
letained carnings	1,702,801	1,533,943	601.076	526,639	
let oprealized appreciation (depreciation) on				•	
securities available for sale, net of taxes	(92,340)	(242,690)	229	(115,675)	
otal shareholders' equity	3,029,352	2,656,977	1,490,537	1,316,006	
otal liabilities and shareholders' equity	\$ 47,144,259	\$ 42,348,215	\$ 15,676,503	\$ 13,586,530	
ook value per share	\$ 44.03	\$ 37.97	\$ 84.65	\$ 74.07	
Client portfolio assets held in custody			\$ 7,369,467	\$ 5,679,515	
et income, for the three months ended	\$ 99,592	\$ 87,513	\$ 44,019	\$ 39,354	
let income per common share (primary)	\$ 1.64	\$ 1.48	\$ 2.50	\$ 2.22	
verage common shares outstanding (primary)	56.021	52.302	17.608	17.753	

Risk-Based Capital Ratios

As of March 31, 1996. Republic New York Corporatioo's risk-based core capital ratio was 13.40% (estimated) and total qualifyiog capital ratio was 22.90% (estimated.) The ratios include the assets, risk-weighted in accordance with the requirements of the Federal Reserve Board specifically applied to Republie New York Corporation on a fully conso-lidated basis, and capital of Safra Republie Holdings S.A. Total consolidated assets under these requirements exceeded US\$ 60 hillioo and total consolidated capital, including minority interest and subordinated debt, exceeded US\$ 6 billion.

Republic New York Corporation Fifth Avenue at 40th Street New York, New York 10018

Safra Republic Holdings S.A. 32, boulevard Royal L-2449 Luxenbourg

Banking Locations n, Geneva, Gibraltar, Guernsey, London, Lugano, Luxenboarg, Milan, Monte Carlo, Moscow, Paris, Zurich, Beverly Hills, ands, Los Angeles, Mexico City, Miami, Montreal, Nassau, New York, Toronto, Buenos Airos, Montevideo, Punta del Este, Rio de Janeiro, Santiago, Beirut, Beijing, Hong Kong, Jakarta, Manila, Perth, Singapore, Sydney, Taipei, Tokyo



OHNNIES INDUSTRIAL CORPORATION LIMITED

(Incorporated in the Republic of South Africa - Reg. No. 01/00429/06) ("Johnnic" or "the Company")

RESULTS OF ELECTION TO RECEIVE AN INTERIM DIVIDEND INSTEAD OF THE CAPITALISATION AWARD AND AN ELECTION TO SUBSCRIBE FOR NEW SHARES

The right of election to receive an interim dividend instead of an award of capitalisatioo sbares ("the Capitalisation Award") and the right of election by those shareholders electing the dividend Johnnic st the Subscrite

COMPANIES AND FINANCE: UK

Shareholders protest about arms sales

Eggs fly as BAe wins change to voting rules

By Tim Burt

British Aerospace, the aircraft and defence equipment manufacturer, yesterday won approval for controversial plans to change its shareholder voting rules amid chaotic scenes as peace protestors disrupted its annual meet-

Although the AGM ended with eggs being thrown at directors, minor scuffles and a bungled attempt to make a citizen's arrest of the board - the company claimed it had achieved its main aim of persuading shareholders to back its call for card votes at all

future meetings. BAe said the proposal which gives it the authority to withhold a vote on the company's report and accounts - was supported by more than 90 per cent of the shareholders that

Sage, the Newcastle-based

accounting software house

performed to market expecta-

tions in the first half of the

year, with strong growth in

The company's reputation

for unbroken growth remained

intact with pre-tax profits up

37 per cent to £16.1m (\$24m) for

Revenues grew 42 per cent to

£71.8m (£50.6), while earnings

per share grew rose 33 per cent

to 9.92p (7.46p). The interim

divided goes up 10 per cent to

Negotiating with Sir Alastair

Morton is like dealing with Tomás de Torquemada, the

feared 15th century head of the

Spanish Inquisition, according

to construction companies and

in an argument, the Euro-

the six months to March 31,

both revenues and profits.

By Alan Cane

The company pushed storm the directors' platform through the plan after giving undertakings to Pirc, the corporate governance consultancy, that it would continue to put its report and accounts to the vote "while that remained best practice". form.

Pirc expressed reservations about the proposals, but said it Dick Evans, BAe's chief execuhad advised its clients to back BAe's plan after the company promised to publish in advance any substantial shareholder amendments to its resolutions in future, and offered to reinstate an annual vote on directors' fees.

was implicated in a campaign against Mr Al-Masaari by a The corporate governance issues were overshadowed at yesterday's AGM by protests at leaked memo from Vickers, the defence group, which showed the group's arms sales, particu-larly to Saudi Arabia and BAe's anxiety over the dissident's activities Calls for BAe to abandon

ment directly on the Vickers memo. But be refuted Mr Galtrade with such countries cul-minated when about half a loway's allegations dozen demonstrators tried to

conference centre. As security staff ejected a number of protestors, another group set off rape alarms and

about 700 inquiries on the first day of operation. It is the first time that real Earlier, Mr George Galloway, time exchange rates have been the Labour MP, accused Mr

available on the Internet tive, of taking part in a con-Mr Peter Cruddas, managing director of Currency Manage-ment Corporation, which has spiracy that could have led to the kidnap or murder of Mr lannched the service with Mohammed Al-Masaari, the Information Internet, said: London-based Saudi dissi-We offer real time prices to Ha claimed that Mr Evans

anybody, anywhere in the world, 24 hours a day." The service is free, in the belief that it will generate business for CMC, a market maker in foreign exchange and bullion. The software can either be obtained on a disk or Mr Evans refused to comdownloaded directly from the Internet. Initially, 12 currencies will be shown.

Within a few weeks, it will be possible for clients who have opened margin accounts with CMC to trade on screen. The \$1,200bn a day global foreign exchange market is dominated by wholesale par-ticipants - companies, investors, banks and speculators. High street retail business is ouly a small part. Mr Cruddas says his service should appeal to the intermediate market. "There is a huge market

worldwide for people wbo want to trade foreign exchange as a speculative or investment vehicle. He believes small investors

can use the Internet to start trading foreign exchange with the ease they trade stocks and bonds. In the US sbares can be traded by exchanging e-mail messages. In the UK, the Electronic Sbare . Information group has plans to set up a share market on the Internet.



\$200,000,000 Floating rate notes due 1998

Notice is hereby given that . the notes will bear interest at 6.17031% per annum from 30 April 1996 to 31 July 1996. Interest payable on 31 July 1996 will amount to \$155.10 per £10,000 note and £1,551.01 per £100,000 note.

tunnel co-chairman displays the same fanatical conviction,

to have been considered by sharebolders and banks to have got the best deal possible in the circumstances. Otherwise be would surely have been removed long ago. None of the contractors bave

made much profit from the job. Most say they will do little bet-ter than break even. Shareholders may continue

to value Sir Alastair's tenacity

and fighting ability as be now

seeks to renegotiate the terms

of some £8.4bu of bank debt.

Most analysts believe that some form of debt-for-equity

swap is inevitable, which would substantially dilute

Those on the receiving end

say Sir Alastair's negotiating

style incorporates his legend-

ary blunt speaking, a prodi-

gious memory for minute

detail and an over-weening

confidence in his own argu-

ments. He is also very articu-

He disconcerts many people.

"He will fight extremely

aggressively until a cause is

lost and then will suddenly

concede, and all will be

warmth and sunshine again.

all the row was about." said

content with Sir Alastair will

be apparent when the company

meets the instructing group of

banks - the 26 biggest banks in

You are left wondering what's

The depth of any current dis-

late and can be charming.

existing shareholdings.

nues than the UK, £33.8m compared with £27.1m, but is only two thirds as profitable. Margins were substantially improved at Ciel and Saari and a third French software house, Sybel, was acquired in November. Mr Goldman pointed out that in France the winter is the strongest trading period and that the French businesses

ing software for personal comcould be expected to generate the greater part of their annual puters. It has subsidiaries in profits in the first half of the France and in the US and is looking to expand further in both regions through scquisition.

France generates more reve-

0.88p a share (0.80p). The shares fell 24p to 435p, but analysts attached little sig-nificance to the movement. Mr David Goldman, chairman, said the accounting software sector had remained stable and predictable despite substantial change in the PC business.

Sage is the UK's leading developer of business account-

The US operations made £1.9m on revenues of £10.9m, but are showing little growth.

Unbroken growth takes Sage to expected £16m

Internet at London's Queen Elizabeth I eggs were thrown at the plat-

By Philip Gawith A new service offering live foreign exchange prices on the Internet yesterday attracted

Bright

start for

forex on

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shareholders registered at the close of business oo Friday, 22 March 1996 ("the record date"), closed at 14.00 oo Friday, 26th April 1996. The weighted average traded price of Johnnic shares oo The Johannesburg Stock Exchange for the three days ended 25 April 1996 was R55.26. Accordingly, the award of capitalisation shares and the subscription for new shares was determined as a ratio of 0.343829 new shares for each 100 shares held on the record date.

Elections to receive the interim dividend of 18 ceots per share in respect of the year ending 30 June 1996 instead of the Capitalisation Award were received in respect of 86 742 679 shares. Accordingly, an interim dividend of 18 ceots per share was declared oo 7 March 1996 on 86 742 679 ordinary shares in respect of the year ending 30 June 1996. Elections to apply this dividend in subscribing for new shares in Johnnie were received in respect of 60 095 257 of these shares. An amount of R10 817 146.26 was therefore applied in terms of the Subscription. Accordingly, 426 980 new fully paid Johnnic ordinary shares of 10 cents each have been allotted in terms of the Capitalisation Award and the Subscription and the issued share capital of Johnnic has been increased in 151 582 940 ordinary shares.

The listing of 426 980 ordinary shares in Johnnic will commence on The Johannesburg Stock Exchange from the commencement of husiness today.

Share certificates and cheques in respect of the interim divideod and fractional payments will be posted in members today.

54%

7% Other Industrial

For and oo behalf of the board

P F Retief (Chairman) V G Bray (Chief Executive) **Johannesburg** 2 May 1996

24

The United Mexican States Floating Rate

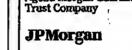
Privatization Notes Due 2001

The applicable rate of interest for the period May 1, 1996, through and including July 31, 1996, to be paid on August 1, 1996, a period of 92 days, is 6.29688%. This rate is 13/16% above the offered rate for three-month deposits in U.S. Dollars which appeared on the display designated as the British Bankers Association's Interest Settlemann Rate (S.48438%) as quoted on the Dow Jones/Telerate Mominor® as Telerate Screen No. 3750 as at 11:00 A.M. (London Time) on April 29, 1996. The above rate equates to an interest payment of U.S.D. 16.0920 per USD 1,000.00 in principal amount of Notes.

Ģ BANCO NACIONAL DE MEXICO, N.Y.

April 29, 1996

ENTE NAZIONAL LIT 500,000,000	E PER L'ENERGIA ELETTRICA 0,000 FLOATING RATE NOTES
	DUE 2000
In accordance with the p as follows:	rovisions of the Notes, notice is hereby given
* Interest period:	30th April 1996 to 30th October 1996
* Interest payment date:	30th October 1996
* interest rate:	8.75% per annum
* Coupon amounts:	LIT 222,396 per Note of LIT 5,000,000 LIT 2,223,858 per Note of LIT 50,000,000
	AGENT BANK
BANQUE INTERNATIONAL A LUXEMBOUR	



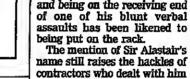
CENTRAL INDICLEARINE EUROPEENNE A NEUTRONS RAPIDES S.A. - NERSA FRF 400.0000.000 GUARANTEED FLOATING RATE NOTES DUE 1997 ISIN CODE : FR0008818728 For the period April 30, 1996 to July 31, 1996 the new rate has been fixed at 3,92421% P.A.

Next payment date: July 31, 1996 Coupon nr : 29 Amount : FRF 200,57 for the denomination of FRF 20 000 FRF 1 002,85 for the enomination of FRF 100 000 THE PRINCIPAL PAYING AGENT SOCIETE GENERALE BANK & TRUST LUXENBOURG

27%

Source FAC 1952





banks.

contractors who dealt with him during the tunnel's construction. It is no surprise, then, that some of Eurotunnel's bankers are reported to be fed up with his aggressive negotiating tactics and would like to see the back of him.

Bankers close to the negotiations say that the grumblings have been limited to a few institutions and that there has been no concerted campaign yet to unseat Sir Alastair.

Prompted by persistent speculation, National Westminster Bank denied on Tuesday that one of its senior bankers was leading an attempt to unseat Eurotunnel's co-chairman. The issue is not a new one. With Sir Alastair due to stand

down in October, several bankers have argued over the last year thet they should be negotiating with a chairman who will be with the company in the long term.

A conspiracy theory among some bankers even suggests that Europunnel has been fanning the recent reports of disgrantled bankers, so that Sir Alastair appears as defender of shareholders' rights. If anybody has been wrong-

footed by the speculation it is unlikely to have been Sir Alastair, who has proved astute in his bandling of the media since he joined Eurotunnel in 1987 to rescue the project.

He was always swift to remind construction companies that their contracts prohibited them from talking to press and television, as he fired off another salvo of public crit-



Alastair Morton: probably got best possible deal for shareholders

icism highlighting their failure Alastair's tireless efforts to to build on time and to budget. persuade international institu-Now bankers have become tions and hanks that the tunirritated by what they regard nel was viable and that be could deliver it. as provocative public com-Construction costs subse-

ments made by Sir Alastair, who last week blamed them for quently soared as designs were slow progress in debt renegotirefined and increasingly rigorations when announcing a ous safety requirements imposed He accused contrac-£925m loss for 1995. Yet even some of his fiercest tors and others of not delivercritics admit that the project ing what they had promised. would never have been com-

At various stages he threat-ened to sue the contractors, pleted without him. Senior management was in the British and French governments, the countries' statedisarray when he arrived. The construction team was embryowned railways and railway onic and there were faw rolling stock suppliers. detailed designs for the project. Mr Joe Dwyer, chief execu-Institutional investors were tive of the Wimpey construc-

threatening to snub vital share issnes without which bank tion group, wryly commented: "Surely we could not all have loans would have collansed. been in the wrong." That these hurdles were Sir Alastair, In spite of a overcome owed much to Sir massive cost over-run, seems

the syndicate - on Friday. Even if Sir Alastair survives the present whispering campaign, Eurotunnel has to find a successor by the autumn. According to some banks, now that the tunnel is up and running, the company should adopt a less hostile approach to its business relationships. Sir Alastair's gung-ho attitude ls

one cootractor.

no longer required, they say. However, others disagree. arguing that Eurotunnel still oeeds a forceful personality at the helm.

"The debt rescheduling is only one of several key issues facing the group. Once that is sorted, it still bas deal with the ferries and the railways."

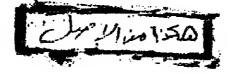
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RESULTS									in jan jan kun 1998 jan kun	243	A composition
	Turner	ver (Esc)		e-tax K (Eza)		; (c)	Curtent payment (pl	Date of payment	- Dividencis - Corresponding dividend	Totzi (or jetar	Total I year
BAT leads 3 miths to Mar 31	5,856	(5,638)	600 9	(516)	11.6	(9.9)	-	-	_	_	24
Carr's Milling S raths to Mar 2	42.4	(40.1)	1.53	(1.33)	14.41	(12.9)	2.5	Jane 5	2		8.5
Demica Bestoners	793	(\$15.7)	53.94	(45.4)	19 1	(16.8)	1.08	July 25	0.9	2.16	1.8
Dares Estates	7.69	(5.07)	3.29	(0.21.)	0.87	(0.35L)					
Fairbrian monocommunity Yr to Dec 31	13.9	(21A)	1.521 🏟	(2.31.♥)	7.75	· (12.11L)	nit	-	nai 🛛	-	nii
Hydro Indi	2.29	(6.34 }	2.22L	(0.48)	14.25L†	(3.873)	-	-	-	-	-
Jourdan (Thomas)	23.3	(23)	0.53	(321)	1.3	(19.4L)	0.75	-	0.75	1.25	1.25
WHIT Computing	8.26	(6.42)	2.37	(1.39)	13	(7A)	27	July 1	1.8	-	6.2
Sage 6 mths to Mar 31	71.8	(50.6)	16.14	(11,7)	9.92	(7.46)	0.88	June 24	0.8	-	2.4
ShilohYr to Mar 30	28.1	(27.1)	D.841🎔	(0.5844)	11.64	(4.55)	2.85	June 20	2.75	3.85	3.75
Investment Trusts		V (D)		initable gs (Em)	Ð	; (p)	Current payment (p)	Date of payment	Corresponding dividend	Tolai for year	Total & your
Alberry	167,8	(136,92)	0.565	(0.438)	5.64	(4.35)	3.35	Juty 4	2.9	4.8	4.25
Finaleury Wined Plan	145	(+)	0.050	(-)	0.3	()	0.25	July 31	£.9 -	0.25	7.64
Floosing For Eastern	393	G42.1)	2.04	(2,46)	1.35	(1.62)	1.3	July 12	1.6	13	1.6
Merray Exterprise S mills to Mar 31 \star	143.4	(117.73)	0.369	(0.234)	1.52	(0.97)	0.825	July 1	0.75		2.35
Combran alterna in the Philip of the state											

win basic. Dividends shown net. Roures in brackets are for corresponding particl. After exceptional charge. WAtter exceptional credit. †On increased capital. * Com

Only 12% of the World's production of wood is used in papermaking.

FOR FURTHER INFORMATION DIAL THE FAX BACK NUMBER 0839 111735 OR WRITE TO : 1 RIVENHALL AOAD, WESTLEA, SWINDON, SN5 7BD TELEPHONE : 01793 879229 FAX : 01793 886182 urged a Sip per minute charp rate and tip per minute at all other time

Issued by the NEWSPRINT & NEWSPAPER INDUSTRY ENVIRONMENTAL ACTION GROUP



COMMODITIES AND AGRICULTURE

Mergers lift Sons of Gwalia into gold index Indonesians to join iron ore

By Kenneth Gooding, Mining Correspondent

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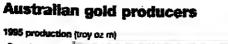
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Only 14 months ago Sons of Gwalia was - in production lerms at least - one of the alsorans among Australian gold miners. Its main claim to fame was that it was the first gold mining company in the world to start seriously hedging its production.

Three quick deals since then have propelled SoG into fifth place among Australian gold producers and a place in the Financial Times Gold Mines index. Its annual gold production has jumped from well under 200,000 troy ounces in 1994-95, to an annual rate of 450,000 ounces and the company will be included in the FT index from tomorrow.

This fast-track entry to the index follows a three way amalgamation: SoG bas merged with Burmine, another Western Australian gold miner, and also gained control of Gasgovne Gold Mines. The three all have operations in the highly prospective Marvel Loch-Southern Cross region of the Marvel Loch and Southern Western Australia, Mr Jim Cross gold mines, bought from





Ainsworth, SoG's chairman, Reynolds Metals, the US alusays combining production, minium group that was mak-ing o strategic withdrawal reserves and resources from six mines and three processing from Australian gold to coocentres in the region should result in greater operational centrate on its core business. The acquisition bought with it efficiency and reduced costs. A\$7m of tax losses which SoG However, nobody at SoG could use, so the net cost was expects the three-way amal-A\$16m. SoG recovered that in gamation to be quite as profitone year.

able as the deal in March last SoG has transformed prosyear that moved the company pects for Marvel Loch by pay-ing A\$2.5m for land surroundinto the top ten Australian producers. SoG paid A\$22.8m for ing the mine and that way removing a severe constraint ou its future physical develop-

walls of the open pit at a convenient angle. Mr Ainsworth says Marvel Loch can now be developed into Australia's second biggest open pit (after the Big Pit at Kalgoorlie), 1.5km long, 300m wide and eventually 350m deep. He sees output from Marvel

Locb alone moving up from 115,000 ounces a year to 170,000 in two years time and suggests that SoG's total gold output will rise to "well over 500,000 ounces" by 1938-39.

Burmine's Copperhead mine is only 70km away from Marvel Loch and Mr Ainsworth says there are several high grade areas suited to open pit mining between them. Yilgarn Star mine, half-owned by Gasgoyne, is 17km from Marvel Loch. Mr Ainsworth hopes that arrangements can be made with Coeur d'Alene Mines, a US company that owns the other half of Yilgarn, to get the maximum bencfits from combining mining and exploration efforts in the area.

SoG was founded in 1984 when a small group of inves-

ment - previously there was not enough room to slope the company's managing director, the and his brother, Chris, now executive director responsible for legal and commercial affairs, decided to redevelop as an open pit the old Sons of Gwalia underground mine near Leonora in Western Australia. Even after being mined for 100 years, the SoG mine still can look forward to at least another five years with annual

production of ahont 120,000 SoG started hedging its output from the start. Today it has 1.5m ounces, or 30 per cent of the old SoG company's reserves, hedged. It will collect an average of US\$500 an ounce for all gold it produces until hung 1000 South Anstralia. The SASE plan was formally

June 1998. The company's aggressive exploration efforts - costing A\$13m last year - has also enabled it to build the biggest land holdings in two of the most prospective gold areas in Australia - Leonora-Laverton as well as Marvel Loch-Southern Cross and one of the biggest in a third, in the Tanami desert of the Northern Territory.

By Nikki Tait in Sydney

Indonesian investors

the time, the companies involved said that they were talking to other potential including Krakatau Steel, the investors, both domestic and large government-owned steel overseas.

This week the partners announced that PT Maritosa group - have agreed to join the South Australian Steel and Energy project that is looking Coalindo, a privately-owned at a US\$500m development of resources company, had agreed to subscribe for a 10 per cent iron ore and coal deposits in equity stake in the project, at a the state's north, about 100km from Coober Pedy. If successful, the ambitious cost of US\$5m, with the option of a further 5 per cent for an SASE joint venture would mitial US\$2.5m, exercisable by establish a new industry in October.

Meanwhile, Krakatau Steel has agreed to provide engi-neers to help establish and run a demonstration plant. PT Puma Sentana Baja, a 100 per cent-owned subsidiary of Krakatau's pension fund has agreed to purchase 1m tonnes of pig iron a year from the proposed commercial project.

Mr Neill Arthur, Meekathar-ra's general manager, said that the joint venture was still talking to other potential partners, both within Australia

and that the three statutory bodies that played a role in the sector - the Meat industry

Council, the Meat Research

Corporation and the Austra-

lian Meat and Livestock Corpo-ration - should be streamlined.

"There's a whole range of

The aim is to build a demon-stration plant over the next four months, to test the technical and commercial viability of Ausmelt's pig-iron making technology. A full feasibility study is then due to be completed by the second quarter of 1997. The joint venture partners have already mooted a stock market float, should the project be given the go-ahead and major fund-raising become necessary. The partners said this week

25

that discussions were under way to site the plant within the shell of an empty power station building at Port Augusta, owned by the state electricity monopoly.

The project is aimed at capitalising on growing Asian demand for steel and steelmaking materials. Although production of pig iron would be the main objective in the project's initial stages, the partners have mooted a wider range of products in the longer term.

farm through to freight," be said. The taskforce is expected

to report within a few months.

struggling in the face of the glut of US beef, which bas

driven down prices, and the

increasingly aggressive export focus by US farmers. Higher

feedgrain prices have com-

pounded their problems.

Australian producers bave

Amax's Alaskan and Russian projects face steep costs rises

ounce.

sition.

cost.

By Kenneth Gooding

Amax Gold of the US is facing steep cost increases at the two projects that it is counting on to put it among the world's big gold producers.

The company says that the cost of developing its Fort Knox gold project in Alaska has jumped by more than 40 per cent compared with its original projections, from US\$256m to \$370m. In addition, the Kubaka project in Russia is now expected to cost 25 per cent more than previously estimated: \$228m instead of \$182m.

When both projects are under way, the company expects to have annual production of more than 700,000 ounces of gold with an average cash cost "in the low \$200 an

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BASE METALS

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the Kubaka project, with Rus-sian interests owning the rest. ounce range". Last year output from its four present mines totalled 238,000 ounces at Production, at an average a cash cost of \$326 an Amax is 51 per cent-owned by Cyprus Amax Minerals and is in the process of acquiring Cyprus's stake in the Kubaka venture. It is now evaluating

the impact of the cost increase on the planned acqui-Finance for the Knbaka project, located about 1,000km north-east of Magadan in far eastern Russia, has been

arranged with some development banks, including the US **Overseas Private Investment** Corporation, and Amax is also exploring various methods of funding the increased Cyprus owns 50 per cent of

annual rate of about 300,000 troy ounces and a casb cost of under \$200 an ounce, is scheduled to start next year. Amax explains that the causes of the rise in costs at Kubaka include delays to the commencement of the project, logistics and freight costs, today. higher than expected labour costs and tax and design

"unexpected geotechnical con-ditions," design changes and

changes. The increased cost of the Fort Knox project, expected to produce an annual 350,000 ounces at a cash cost of \$215 an ounce from early next year, arose from a delayed start,

higher labour, freight and engineering costs.

By Laurie Morse in Chicago In the first initiative of its kind, derivatives traders around the world will donate a portion of today's trading proceeds to the international relief agency, CARE, to fight global poverty. Twenty of the world's futures and options exchanges will lead the effort, pledging a dollar amount to CARE based on the number of transactions made on their trading floors From Toronto to Tokyo, bro-

kerage houses, banks, and individual traders will also make volume-related donations in a multi-tlered effort that is expected to raise at least \$1m. A final tally of donations will be announced on May 10. While futures traders in the US and Europe have a history

of local philanthropy, this is the first time the industry, known for its global reach, has

Australia are participating. "CARE is a particularly good fit [with the futures industry]" said Mr John (Jack) Sandner. chairman of the Chicago Mercantile Exchange and Chairman of CARE's World Trading Day. "CARE is a global organisation, and it allows us as futures traders to invest in the

Pulp market slide reversed

Many leading international forest products groups have posted a US\$60 a tonne increase in northern softwood pnlp transaction prices to about \$580, effective from June 1, reversing the fall from a peak \$1,000 last October to the current \$520.

to \$740 on average on April 22 under the leadership of International Paper and other com-

panies have followed. Linerboard prices are also coming off the floor, with many north American producers posting a level of \$380 a short ton, up from \$330. But newsprint remains weak because of high North American publisher stocks.

COMMODITIES PRICES GRAINS AND OIL SEEDS SOFTS MEAT AND LIVESTOCK Precious Metals continued GOLD COMEX (100 Tray oz.; \$/tray oz.) WHEAT LCE (2 per torme) E COCOA LCE (Stonge) LIVE CATTLE CME (40,000/bs; cents/bc) LONDON METAL EXCHANGE Sett Day's Open Price change High Low Yol Jat lever Yol list Day's change Day's (Prices from Amalgamated Metal Trading) High Low Vol price change High Low change flight ALUMINUM, 98.7 PUBITY (S per tonne)
 121.50
 +2.85
 131.75
 130.50
 98
 565

 133.50
 +2.85
 137.51
 132.50
 +2.85
 1,561

 118.55
 +0.80
 399

 118.00
 +0.65
 118.20
 117.50
 203
 2,911

 119.75
 +1.85
 118.00
 40
 964

 121.75
 +0.85
 140
 58,250 +0.300 58,350 56,750 11,052 34,226 60,525 +0.775 60,600 59,200 0,457 24,201 62,675 +0,825 62,800 61,700 3,243 17,898 61,325 +0,726 01,600 60,500 2,178 10,425 61,350 +0,600 62,000 61,250 903 8,383 64,350 +0,425 54,400 63,875 120 1,551 271 763 84,880 393.3 +1.4 394.9 +1.4 396.2 392.6 28,233 100,602 Hay Jal Sep Dec Har Hay Total Joi Joi Sep Xov Jan Har Jun Ang Dec Dec Feb Apr Jun Jun Aug Oct Dec Feb 3 mithe
 397.3
 +1.4
 396.5
 395.8
 918
 20.773

 399.7
 +1.5
 400.0
 399.1
 40
 5,526

 402.1
 +1.5
 403.2
 400.0
 3,558
 27,280

 404.5
 +1.5
 539
 5,186
 1833-34 1037 1027 1039 1598-99 1559/1547 1595.5-96 1630-31 1638/1623 1628-28.5

Traders show they care worked together for the benefit

By Nikki Tait of an international agency. In addition to Europe and the US, Australia's federal government is to set up a taskforce to overexchanges in Canada, Japan, Singapore, South Africa, and haul Australia's large but ailing meat industry. Announcing the inquiry yes-

terday, Mr John Anderson, the new primary industries minister, said that there was urgent need to reform in the industry

be addressed that run the whole gamut of activity, from

Stone-Consolidated, Georgia

delivery, up from \$480, they

White papers, including some key business papers, went up from \$700 a short ton

Pacific and Stora are leading the move, say market analysts. A sudden increase in demand for top quality northern pulp has also extended to US southern pine pulp, for which \$540 is being asked for June

JOTTER PAD

which links the success of each exchange's volume to the success of people in need, goes beyond local corporate giving".

future of people whose lives are most at risk." CARE executive Ms Lynn Allen, who is directing World Trading Day activities, said:

"With government funding for world relief dwindling, private

philanthropy becomes even more critical. This event,

By Robert Gibbens in Montreal



lian government. The deal gave Meekatharra and Ausmelt equal stakes of 40 per cent in the project, with the state government bolding ners, both within the remaining 20 per cent. At and internationally.

Australian meat reform planned

inaugurated last year when three partners signed a detailed joint venture agree-ment. These were Meekatharra Minerals, the Australian-listed exploration group; Ausmelt, a listed smelting technology group; and the South Austra-

Kerb close 1636-36.5 Open int. 206,973	Total 35,086 205,058 ■ PLATINUM NYMEX (50 Troy oz.; \$/troy oz.)	Tetel 467 6,592 ■ WHEAT CBT (5,000bu min; cents/60tb bushel)	Total 7,389 164,321	Total 23,076 96,888 30 LIVE HOGS CME (40,000/bs; cents/bs)	
Total daily turnover 54,532	Jal 406.0 +2.4 407.8 403.0 1,957 19,921	May 676.00 +34.50 678.00 652.00 1,406 1,584	Nav 1375 +20 1365 1365 23 268	Jun 60.350 +0.600 60.500 59.206 5,021 17,035	
Close 1340-50 1380-85	Det 408.9 +2.4 410.5 408.5 75 3.279 Jam 411.7 +2.4 1 910	Jul 597.00 +30.00 597.00 351.00 12,934 69,695 Sep 588.00 +30.00 588.00 641.00 3,094 14,982	Jel 1388 +20 1380 1386 8,584 33,317 Sep 1397 +23 1400 1374 2,101 18,082	Jul 58.075 +0.200 58.600 57.200 2,749 8,150 Ang 53.625 +0.350 53.850 52.850 1,349 5,363	The solution is HP Computer Systems.
Previous 1335-45 1375-80	Apr 4144 +2,4 2 1,316 Totat 2,035 25,428	Dec. 593.00 +30.00 593.00 560.00 5,430 17,468 Mar 579.00 +30.00 579.00 549.00 243 1,363	Bac 1407 +24 1407 1381 715 17,362 Mar 1412 +18 1412 1391 435 13,994	Det 48.425 +0.150 48.500 47.900 552 4,151 Dec 51.950 +0.675 52.900 51.950 274 3.941	
- AM Official 1335-40 1375-80	PALLADIUM NYMEX (100 Troy oz.)	May 526.00 +30.00 526.00 495.00 55 118	May 1431 +16 1407 1407 10 4,832	Feb 72.850 +1.075 73.000 71.800 114 714	AP HEWLETT
 Kerb closé 1377-78 Open int. 5,412 	Jun 133.25 +1.90 T34.25 132.00 T,603 5,418	Total 22,531 97,782 III MAIZE ČET (5.000 bu min; cents/56ib bushel)	Total 12,885 97,929 E COCOA (ICCO) (SDR*s/tonne)	Tetal 18,129 40,057	PACKARD
Total daily tumover 2,215	Sep 134.40 +1.85 305 2,671 Dec 135.50 +1.70 136.50 134.50 45 197	May 488.00 +25.50 489.00 464.00 14.085 17.575	Apr 30 Price Prev. day		
LEAD (\$ per tonne)	Total 1,953 8,267	Jei 466.25 +14.25 467.50 446.00 55,636 165,824 Sep 374.25 +15.75 374.50 357.00 15.303 58,526	Daily 1024.33 1047.44	May 88.225 +2.000 88.225 88.225 946 3.222 Jal 87.350 +2.000 87.350 87.350 1,485 5,518 Aug 84.725 +2.000 84.725 84.200 336 1,239	
- Close 808-10 799-800 Previous 800-2 793-4	■ 58LVER COMEX (5,000 Troy oz.; Cente/troy oz.) New 537,6 +8,5 540,0 530,0 2,882 3,096	Dec 336 75 +9.25 337.00 326,25 31,591 134,898	COFFEE LCE (\$/tonne)	Fab 82.700 +2.000 82.700 82.700 53 449	CROSSWORD
High/low 807/805.5 802/790 • AM Official 805-5.S 794-5	Jun 540.1 +8.5 542.5 542.5 T4 4	Max 343.00 +8.50 343.50 335.00 7,465 14,896 May 345.00 +10.00 346.00 338.00 216 1,438	May 1911 +8 1940 1911 1,204 3,591	Mar 84.500 +2.000 84.500 83.100 7 10 May 85.700 +2.000 85.700 83.650 8 48	
- Kerb close 801-2	Jul 542.5 +8.5 545.0 534.0 20,024 64,856 Sep 547.5 +8.5 549.0 539.0 644 13,517	Total 118,754402,271 ■ BARLEY LCE (Σ per tonne)	Jul 1921 +9 1945 1915 1,966 18,152 Sep 1920 +10 1935 1920 355 5,734	Total 2,835 11,094	No.9,058 Set by MUTT
Open int. 35,568 Total daily turnover 5,812	Dec 554.8 +8.0 556.0 547.0 122 9,462 Max 562.4 +8.0 564.0 564.0 56 3,444	Nery 114.90 +3.55 115.25 112.50 35 215	Nov 1920 +10 1939 1912 462 3,021 Jac 1898 +22 1916 1900 410 1,492	LONDON TRADED OPTIONS	
Nickel (\$ per tonne)	Tatal 23,745 98,613	Sep 103.75 +1.00 109.00 109.00 4 59	liter 1583 -4 1876 1880 243 654 Total 4.540 30,854	Strike price \$ tonne — Calls — Puts	1 2 3 4 5 8 7
Close 7945-55 6045-50 Previous 7890-900 7990-95		Jan 113.25 87	COFFEE 'C' CSCE (37,500ibs; cents/ibs)		0
High/low 8200/7840		Mar 115.15 41 Tokal 39 1,082	May 128.25 +3.15 128.10 126.00 153 958	(199.7%) LME Jun Sep Jun Sep 1600	
Kerb close 8180-85		SOYABEANS CET (5,000bu min; canta/60b bushe)	Jul 127.00 +2.55 127.80 125.00 4,845 19,955 Sep 126.05 +2.50 126.50 124.30 735 4,757	1700	
Open Int. 38,408 Total daily turnover 14,541	ENERGY	Herey 810.50 +23.25 911 00 796.00 6,960 9,735 Jul 817.50 +22.50 919.00 794.00 45,923 79,735	Dee 124.30 +2.45 124 50 122.75 91 2.565 Mar 124.00 +3.45 124.00 122.50 18 610	COPPER	
TIN (\$ per tonne)	CRUDE OIL NYMEX (42,000 US gaits. \$/barrel)	Aug 916.25 +22.50 817.00 798.00 3,238 11,383	Ney 123.25 +4.25 10 247	(Grade A) LME Jun Sep Jun Sep 2500	12 13
Close 6540-50 6555-60	Latest Day's Open price change High Low Vol int	Sep 796.00 +19.25 797 00 785 00 1,232 6,195 New 785.50 +18.00 786.00 764.00 22,708 69,345	Telef 5,858 29,167 ■ COFFEE (ICO) (US cents/pound)	2600	
+ High/key 6560/6450	Jan 20.72 -0.48 21.20 20.47 60,461 102.287 Jul 19.89 -0.36 20.23 19.75 36,051 68,726	Jan 790.50 +17.75 791.00 789.00 601 6,830 Tetal 61,878.191,697	Apr 30 Pres, day	2700	76 18 18
.; AM Official 6500-10 8510-20 N Kerb close 6560-85	Aug 19.26 -0.23 19.47 19.06 9,923 50,844	SOYABEAN OIL CBT (60,000hs: cents/b)	Comp. daily 110.34 110.78 15 day awarage 108.33 107.84	1900 124 201 103 47 1960	
Open int. 16,668 Total daily turnover 4,496	Sep 18.80 -0.27 19 90 10 68 3,362 35,520 Dct 19.50 -0.18 18.57 18.52 2.472 24.822	May 27.66 +0.69 27 55 27.08 6,985 5,754		2000	17
ZINC, special high grade (\$ per tonne)	Nov 10 45 -0.17 18.53 18.38 1,503 10.897 Tatal 119.362 453.844	Jul 28.05 +0.71 28.08 27.34 14.411 52.910 Any 28.16 +0.68 25.20 27.72 2.362 9.965	WHITE SUGAR LCE (\$/tonno) Ame 356.7 -1.6 359.0 356.6 317 12.085	■ COCOA LCE Jul Sep Jul Sep 875	10 19 20 21 21
Close 1026.5-27.5 1052-53	CRUDE OIL IPE (\$/barrel)	Sep 28.26 +0.65 28.25 27.90 335 4,089 Det 28.35 +0.64 28.35 28.08 358 3.148	Oct 330.9 -0.9 333.0 331.5 156 5,230	900	<u> </u>
High/low 1023 1052/1040	Latost Day's Open	Dec 28.61 +0 58 28.65 28.22 3.059 16.910 Total 27,715 94,863	Dec 322.3 -1.2 324.0 323.3 25 3,185 Mar 319.5 -1.9 321.5 318.7 57 2,808	925 168 195 3 10 BRENT CRUDE IPE	
AM Official 1023-24 1048-49 Karb close 1050-51	price change Ligh Levr Vol Int Jun 18.75 -027 19.85 18.58 14.436 55.406	SOYABEAN MEAL CET (100 tons; S/ton)	Hany 320.0 -1.1 321 5 319.2 117 1,153 Any 322.0 -0.6 324.0 323.6 59 359	Jun Jul Jun Jul 1900 65 -	22 23 24
Open mt. 72,460	Jet 19.15 -0.25 18.26 18.80 9.584 61.791 Jen 17.70 -0.28 17.81 17.50 2.242 22,229	Many 248.2 +6.4 249.5 243.5 9.051 7.086 Jul 252.1 +6.7 253.3 245.7 24.523 52.365	Tetal 761 25,057	1950	25
Total dealy turnover 23.819	Sep 17 44 -0.11 17.53 17.30 1,776 12,364	Aug 3521 +6.5 253.3 348.2 3.689 17,920	SUGAR '11' CSCE (112,0001bs; cents/lbs)	LONDON SPOT MARKETS	25 27
Close 2898-703 2607-08	Oct 17.24 -0.08 17.26 17.11 1.573 7.777 Bery 17.11 -0.04 17.11 16.96 774 4.782	Sep 248.0 +5.5 248.8 245.2 880 7,384 Det 243.8 +5.0 244.2 240.0 370 3,238	Oct 10.40 - 10.46 10.38 5,371 35,084	CRUDE OIL FOB (per barrel) +or-	
High/low 2577 2611/2587	Total 32,138 200,581 HEATING OIL NYMEX (42,000 US galls ; c/US galls]	Dec 243.6 +4.9 244.5 240.2 4,327 15,767 Tetal 43,096 100,319	Mar 10.40 -0.02 10.45 10.38 3,690 24,734 May 10.35 - 10.37 10.34 328 6,044 Jul 10.27 - 10.27 10.26 319 3,298	Dubai \$17.02-7.12x -0.23	
- AM Official 2676-78 2598-99 Kerb close 2606-07	Later Davis Cot with a Coto	POTATOES LCE (E/tonne)	Jul 10,27 - 10,27 10,28 319 3,298 Oct 10,15 - 10,19 10,15 22 1,085	Brent Blend (dated) \$18.99-9.01 -0.51 Brent Blend (June) \$18.74-8.76 -0.52	
Open Int. 173,802 Total daily turnover 80,117	price change High Low Vol Int	New 115.0 - 190 128.0 118.0 7 72	Total 31,438 131,488 COTTON NYCE (50,000;bs; cents/ba)	W.T.L. \$20.79-0.80k -0.515 OIL PRODUCTS NWE prompt delivery CF (pome)	ACROSS 5 Escort almost died about
I LAR AM Official 2/5 rate: 1.4945	Maay 49.15 - 49.15 49.15 11.798 1.017 Jaa 54.30 -0.79 56.20 53.30 16.272 25.494	Nov 82.5 -10.5	May 64.95 +1.95 84.95 83.45 97 240	Premium Gasoline \$232-234 -2	1 Addled Rev in nearly new car instrument being twisted (10)
LME Closing \$/5 rate: 1.4951	Jet 52.75 -0.43 52.95 52.00 2,645 15,049 Ame 52.20 -0.49 52.69 51.75 1,650 12,732	Mor 1100	Jul 86.35 +1.23 86.50 85.15 4,475 24,324 Oct 85.10 +1.15 85.10 84.00 421 3,401	Gas Oi \$166-168 -1 Heavy Fuel Oi \$104-106	returning relative to Gates- 6 During manic tussle atroke head - it's traumatic (5-7) occurred (5)
*** Spot: 1.4951 3 milles: 1.4932 0 milles: 1.4920 9 milles: 1.4905	Sep 52.70 -0.24 52.94 52 15 254 6,639 Det 53.15 -0.29 53.15 52.75 154 3.961	Tetal 83 1,852 E FREIGHT (BRFFE), LCE (\$10/index point)	Dec 83.58 +0.81 \$3.60 \$2.80 2,996 25,430	Naphtha \$192-194 -4	10 With companion in second 7 A small thing for relative for track is Miss du Bois from Christmas (not to be opened)
	Total 34,887 82,301	May 1376 +8 1370 1365 30 800	Nor 84.27 +0.77 84.35 83.70 210 2,969 May 84.90 +0.70 84.90 84.20 114 1,343	Jet fuel \$188-190 -2 Diesel \$167-168 -1.5	Tennessee (7) (7)
. Sett Day's com price change High Low Vol Int	GAS OFLIPE (\$/onne)	Juni 1283 +10 1290 1290 14 481 Juli 1255 +5 1260 1258 17 7,924	Total 8,137 68,136 ORANGE JURCE NYCE (15,000/bs; cents/ibs)	NATURAL GAS (Pence/therm)	11 Money back, river baving eroded the fertiliser (7) 8 What the N. American Indian ooce had a go at making?
Mary 122.90 +1.75 123.00 120.50 2,234 9,260 Jam 122.15 +1.70 122.15 121.00 522 2,860	Sett Day's Open price change High Low Yol int	Jad 1255 +5 1260 1258 17 1,924 Det 1337 +7 1345 1340 21 1,020 Jaco 1365 +30 57	Nev 130.05 -4.45 131.50 130.00 1.175 1.910	Bacton (June) 8.05-9.20 -0.275 Petroleum Argus, Tal. London (0171) 359 8792	12 Snake in French tree (5) (1,5,7)
120 61 +1.45 120 80 118.75 8.672 23.955	Nary 166.25 -1.25 165.75 161.75 4,575 10.700 Jun 164.75 -1.25 154.75 101.00 4,182 13,074	Apr 1370 32	Juli 133.05 -1.20 133.75 130.05 1.314 14,652 Sep 131.85 -0.45 132.30 130.50 223 3,428	I OTHER	18 Tear-jerkers put us off fool 9 Can't remember, me, being ishly introducing daylight absent minded (4-9)
Aug 119.30 +1.30 119.00 118.20 25 633 Sep 118.20 +1.35 118.30 117.30 1,118 4,163	Jul 163.25 -0.75 163.25 160 75 885 6,963	Total 92 4,723 Close Prev	Nov 125.50 -0.25 125.70 124.50 - 994	Gold (per troy cz) \$ \$393.55 +1.95 Silver (per troy cz) \$ 539.50c +6.00	saving (3-5) 14 By birth weight, a gem (10)
0et 116.95 +1.20 1 501 12,951 51,471	See 163.00 -075 163.00 162.00 165 3.276	SFI 1456 1456	Jan 123.75 +0.25 123.75 121.75 10 3.137 Mar 125.95 +0.20 1 256	Platinum (per troy oz.) \$402.00 +1.25	15 For toothless old Sne, tune 17 A capital fellow like Alfred should be sprightly (10) Doolittle (8)
	Det 164.00 -0.75 162.75 162.50 65 1,619 Tetal 11,162 51,381		Total 2,723 24,515	Palladium (per troy oz.) \$131.50 +2.75 Capper 127.0c	16 A woman's love for a great 19 How sweet! BR arranged to
PRECIOUS METALS	NATURAL GAS MMEX (10,000 mmBut; S/mmBut)	FUTURES DATA		Lead (US prod.) 45.00c Tin (Kusia Lumpur) 18.20r	man (4) put a loose cover on (7) 18 An objection about the instru- 21 Fill as of old, member allowed
E LONDON BULLION MARKET (Prices supplied by N M Rothschild)	Latest Day's Open	All futures data supplied by CMS.		Tin (New York) 303.50 -2.00	ment (4) inside, that is (7)
Celef/Terry on \$ price 2 equiv SFr equiv	price charger High Low Vol Int Jac 2,215 -0.009 2,240 2,185 6,518 30,083			Cettle (live weight) 102.58p -4.52" Sheep (live weight) 185.46p +3.68"	20 As depicted in "The Return of 23 When busband is returning the Native"? (10) late, starts to cause a flurry
Close 393.30-393.90	Juli 2.205 +0.007 2.220 2.175 2.651 21.024 Aug 2.200 +0.009 2.210 2.180 1.358 16.376	Nuts and Seeds	· · · · · · · · · · · · · · · · · · ·	Pigs (live weight)† 108.99p +4.65*	22 In a different manner, besides (5) knowing (8) 25 Crow takes the game (4)
Morning fix 391.00 261.14 488.12	Sep 2.185 +0.612 2.190 2.165 1.214 14,626	Prices from Kenkko Group; US\$ a tonne, ira- nice, pretachos 28/30 raw (in sheft) naturally	VOLUME DATA	Lon. day sugar (row) \$264.00 -1.50 Lon. day sugar (wte) \$3770 -0.50	24 Drank back at military head-Solution 9.057
Afternoon fix 392.30 261,57 489.59	0et 2 190 +0.015 2.197 2.170 575 11,505 New 2.225 +0.010 2.240 2.220 310 8.164	opened (round); 1995 crop 3,350 CFR/FOT	Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT.	Barley (Eng. feed) 114.40 Maize (US No3 Yellow) Ung	quarters (5)
391.00-391.50	Total 14,459144,442	MEP, 26/28 3,450 CFR/FOT MEP. US almonds (shelled) 23/25 NPSSR 1995 crop availability	NYCE, CME and CSCE are one day in arrears. Volume & Open interest totals are for all traded	Wheat (US Dark North) Unq	26left with one officer by SHIINDY OMIISSIION the colonnade (7)
Previous close 391.40-391.60	UNLEADED GASOLINE NYMEX (42,000 US galls, c/US galls, 1	very short; rumours of new crop damage bring current level to 5,950; price idea for NPS 20/22	months	Rubber (Jun)¥ 98.50p Rubber (Jun)¥ 98.50p	27 This is the kind of poetry our RATILE DAMASCUS
1 month4.33 6 monuts	Latest Day's Open	ic 6,300 FAS California, down on lack of domand, US watnuts Jumbo Hantey in shell,	INDICES	Rubber (KL RSS No1) 363.50m	Edua makes up (7)
2 months	price change High Low Vol. Ict	1995 crop 2,350 FCA Antwerp. Indian cashews	REJTERS (Base: 18/8/31=100)	Coconut Oil (Phil)\$ \$830.0v Paim Oil (Makey.)\$ \$560.0z -5.0	
Silver Fix p/troy oz. US cts equiv.	11577 71.60 – 77.70 71.50 16.047 3.064 Junt 87.10 – 2.38 70.35 66.55 24.017 33,569	raw. 1995 crop, W-320, 8,250 spot Europe, Ught (new crop offers at 5,950). Turkleh hozel-	May 1 Apr 30 month ago year ago 2096.6 2108.9 2108.3 2322.7	Copra (Phil)§ \$502.0v 3.0	
Spot 3:months 360.55 538.95	Jud 64.10 -1.70 65.50 63.60 5,081 17,837	nut kernels, 13/15 standard 1s, 1995 crop, 3,250 FOB MEP, Apri-June shipment, higher	CRB Febares (Base: 1967=100)	Soyabeans (US) 223.0v Cotton Outlook A' index 81.95c -0.40	Z A warning was once enough PREFERENCE
6 months 965.30 page 558.85	Ang 61.00 -0.90 62.40 60.60 2.155 11.925 Sep 58.40 -0.30 58.85 57.90 124 3.853	prices likely because of Turkish shippers selling short and having to tuffill earlier contracts.	Apr 30 Apr 29 month ago year ago 256.09 259.55 252.21 236.56	Wooltops (54s Super) 430p 5 per tonne uniess otherwise statud, p percenta, c certaito.	(7) 3 Neighbourbood has a lot of ANCHOREMILLITIANT
1 year Sprice £ equiv.	Det 55.48 -0.30 55.40 55.40 514 1.283 Total 47,933 74,691	Chinese pine nut kernels; Chinese defaulting on	E GSCI Spot (Bass: 1970=100)	E per tonne uniess ometwais statuct, p periosag, c centario, s mogetrag, m Malaystan centarlag, z May, z June, v Apr/ May, y Apr/Jun, V London Physical, § CIF, Romerdom, §	depravity in it that's CHILEF CHARA
Krugemand 390-393 261-263	1048 - 4401 - 1048 - 4401	contracts following price increase from 4,500 to 6,500; no Chinese supplies available.	Apr 30 Apr 29 month ago year ago 209.33 214.75 208.66 183.63	Harry, y Agringuint, y London i Anyacal, y Car Hontercom, y Bullion market close, " Change on week, †Bosod on 1,441 head of pigs solid.	unknown (8) <u>ORIGINAL BARROW</u> 4 Animal turns np, a weak <u>CELL</u> SEI I ANAL
- Maple Leaf 402,45-404.56 ∵ New Soveragn 91-94 61-63				mer e fals and	thiog (4)

INTERNATIONAL CAPITAL MARKETS

Offering by Italian futures jump on rating news

By Samer Iskandar in London and Lisa Bransten in New York

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Most European markets were closed yesterday for the May Day holiday. Italian BTP futures however showed a very strong performance on bopes that the country's sovereign ratings might be raised.

US Treasuries also rose after the release of a National Association of Purchasing Manage ment index showing that inflationary pressures in April were weaker than market participants had feared.

Italian BTP futures traded in London rose by almost a full percentage point in the afternoon while the underlying cash market was closed. Liffe'a June BTP future had fluctuated in a narrow range of 113.8 to 114 for most of the session, but immed to 114.80 soon after Moody's Investors Service said it was reviewing Italy's Al sovereign rating, and settled at 114.64, up 0.33.

The rating agency said it might might raise Italy's rating after "an examination of ... the changes made in the country's

Moody's said it would place particular emphasis on "the medium-term trajectory of government finance". In the longer term, Mr Kirit Shah, chief market strategist at Sanwa Internetional believes a pause in the recent convergence of European highyielding markets towards German yield levels is likely.

GOVERNMENT BONDS

"The Italian market for example, is now pricing future interest rate cuts that still have to be seen", he said.

The German market was closed, but in London Liffe's June future on 10-year bunds settled at 96.92, down 0.41. The contract showed weakness in early trading, reaching an intra-day low of 96.72, but recovered in the afternoon in line with US Treasuries. Ms Sharda Persaud, German

economist at San Paolo Bank in London, said that "although

underlying fiscal structure". market participants do not expect further rate cuts this year, bunds still have upside potential". She believes the Bundesbank will start reducing the repo rate again, possibly early in June.

> ■ UK gilts traded sideways in moderate volumes. Political uncertainty weighed on the market, as traders were reluctant to take positions before today's local elections. Liffe's Juna long gilt future closed at 106¹/₂₂, unchanged.

US Treasury prices gained in early trading as the figure for manufacturing activity from the National Association of Purchasing Management came in ahead of expectations, but below Tuesday's figure from purchasing managers in the Chicago area. Near midday, the benchmark 30-year Treasury was % higher at 88% to yield 6.871 per cent,

while the two-year note was up 1 at 991, yielding 6.027 per cent. The June Treasury bond future added f to 109m. The yield curve that maps

the Halifax the yield spread between twoyear notes and 30-year bonds sells out flattened by 2 basis points to 84 points on the suggestion that national manufacturing activin hours ity was not as strong as the Chicago figures suggested. A

flattening yield curve is gener-By Conner Middelmann ally interpreted as a sign that The UK's Halifax Building fears about inflation are eas-

The NAPM put manufacturing activity at 50.1, the highest it has been since the spring of last year, but below the 52 level the Chicago association reported on Tuesday. Economists had forecast a NAPM figure of 48.

Yesterday's figure was just above the threshold of 50 that is considered a sign of economic expansion.

There was little market reaction to news that the Conference Board's index of leading economic indicators rose 0.2 per cent, alightly below the 0.3 per cent many economists had expected. Trading was comparatively light as investors awaited tomorrow's key figures on employment levels in

Mexican global bond swap, draws a mixed response

Latin 30-year risk."

cial crisis.

By Lisa Bransten in New York and Conner Middelmann in London

Mexico's offer to exchange up to \$2.5bn in outstanding Brady debt for a 30-year global bond drew a mixed response from global investors yesterday.

Mexico agreed to exchange \$1.75bn in outstanding Brady debt for a 30-year dollar denominated global bond with a yield of 552 basis points over the US long bond. That is less than the \$2.5hn maximum Mexico offered to exchange, and the yield was at the high

30-year debt into the market is end of expected pricing. The global bonds receive interest of abont 164 basis a very positive statement in points more than Mexico's par Bradys at the close on Tuesday, but lose the 30-year zerocoupon US Treasury bonds that collateralised the Bradys in case of default, so the offer was viewed as a key test of demand for pure Mexican risk. "It's not a failure, but it's not

that a relatively large proporan outstanding success," said Ms Ingrid Iverson, emerging tion of Bradys were exchanged by holders other than the Mex-. markets debt strategist at UBS Securities in New York. "It ican government. While the smaller than doesn't suggest that there is a expected size and the high huge pool of investors out

yield may cause the issues to there desperate to buy pure weaken in the short-term, he Some, bowever, took as a said, in the long run it should be good for Mexico because it : favourable sign the fact that extends the duration of its Mexico managed to sell even a debt. establishes a 30-year more modest amount of long-term debt just 15 months benchmark and frees up some after the botched devaluation of the collateral for other of the peso sent it into finan-

The new bonds immediately. traded down to 92.25 from their offer price of 92.93, and then settled at about 92.60, but some attributed the decline to hedge funds that bought into the deal to "flip" them quickly in the secondary market.

Mr Martin Werner, director general of public credit in the Mexican finance ministry, said

itself - there's no way that would have been possible six months ago," one syndicate official said. He reported some buying by emerging market fund managers and UK banks. Mr Ali Naqvi, bead of emerging market debt at Citibank Global Asset Management, said he was encouraged by the fact

"The fact that they managed

to get \$1.75bn of pure Mexican

he was pleased with the auction, but that Mexico would not follow this deal with another exchange this year. Egyptian offshore fund planned *

Catastrophe insurance loss bonds pioneered

By Richard Lapper

Benfield Ellinger, London-based reinsurance broker, has linked np with AIG Combined Risks (AIGCR), the investment banking arm of American International Group, to place a portfolio of catastrophe insurance-linked bonds with a UK fund manager.

The fund manager is investing an amount understood to be around \$10m with an offshore special purpose vehicle. This vehicle will in turn sell a loss warranty reinsurance contrect to a reinsuranca company.

The policy is triggered if catastrophic insurance losses in any one of five geographic areas - the US, Japan, Australasia, the Caribbean and west-

ern Europe - exceed a level stipulated in the contract. Losses will be measured against the industry loss indices of Property Claims Services and Sign

All of the bond's principal, as well as the interest generated by it, is at risk in the event of a loss.

"This is a ground-breaking product which accesses a new source of capital for the reinsurance market," said Mr Mat-thew Harding, chairman of Benfield

Mr Diego Wauters, president and chief executive of AIGCR, described the deal as a "pioneering transaction for tha insurance and reinsurance markets".

group, has signed a \$1bn seven-

Demand from banks wanting

including the three arrange ers - ABN-Amro, Chemical and Deutsche Bank - 28 other banks participated in the loan, which will be used for general financing needs and will partly replace the company's existing bilateral lines.

The interest rate on the loan in years one to five is 12.5 basis points over Libor, rising to 15 basis points in the final two vears.

Merck, the German pharmaceuticals company, is seeking to raise DMIbn in the syndicated loans market, via Deutsche Bank and Dresdner Bank. The seven-year facility will be launched into general syndication in the next few weeks. NatWest Markets and Banco Santander have arranged a Ptal7.1bn credit facility with a final maturity of 2010 to fund the construction and sale of 10 sels to be built by the Spanish shipyard Astilleros de Huelva. The buyers of the vessels are Miltose and Marlbay, two Irish companies.

strong credit standing.

since February 1992. While new deals are likely to be thin on the ground this week, the market is preparing for more in coming weeks.

The Korean Development Bank is to bold European roadshows next week for a global bond, said to be around \$750m of five-year or 10-year bonds via CS First Boston and Lehman Brothers. Israeli officials will travel to London next week to select

underwriters for the coontry's first eurobond, expected this summer. Israel is looking to raise \$200m to \$250m.

Although the Egyptian stock exchange is the second largest Middle Eastern market open to foreign investors it has so far attracted little interest from institutional buyers.

HSBC James Capel is looking to change this with the launch of the first offshore closed-end fund to invest in Egyptian equities

HSBC is attempting to raise between \$50m and \$100m from institutional investors in Europe, the US and the Middle East. The Egypt Investment Company will be listed on the London Stock Exchange and will be managed by Concord National, a joint venture between Concord Group, a US based investment manager, and the National Bank of

to have already been committed by local investors. The Egypt investment strat-

egy is driven by the govern-ment's stated determination to speed up a privatisation pro-gramme that has been mired in cent in 1995 and has lost over 5 bureaucracy for years. per cent this year. But Concord Pressed by the International

officials any the market is unlikely to drop further. Monetary Fund, the newly They also play down con-cerns about Egypt's political. appointed government issued in February a list of 80 comparisk - highlighted last month nies worth over \$4bn to be privatised this year. when Islamic militants gunned Concord officials admit this down 17 tourists ontside a

target may be too ambitious Cairo hotel The investment managers : and perhaps no more than 40 say that compared with the general volatility of the Middle East, Egypt is politically sta-ble, with the National Democratic Party having consoli-

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dated its rule in the December seven times earnings on aver-1995 parliamentary elections.

WORLD BOND PRICES FT-ACTUARIES FIXED INTEREST INDICES BENCHMARK GOVERNMENT BONDS BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100% Dey's change Price Indices UK Gäts Day's change % Bed Strike CALLS PLITS Toe Apr 30 yad adj yad Yield ago ago May 1 Apr 30 Yr. ago May 1 Apr 30 Yr. ago May 1 Apr 30 Yr. ago Date Price Mary 1 Coupon JU Sep Price Aug Aug 8.79 8.78 0.00 6.37 0.00 8.60 0.91 0.70 0.53 0.33 0.54 0.83 10,000 6.125 7,000 8,750 8,000 5,750 7,250 6,000 9850 9700 9750 0.55 0.37 0.23 1.04 1.36 1.72 1,40 0,75 0,48 0,25 0.77 1.26 1.57 1.92 Australia Austria Belgium Canada Denmark France 02/06 107,9530 --0,630 Up to 5 years (23) 5-15 years (19) Over 15 years (3) -0.01 -0.05 -0.30 -0.07 2.72 5 yrs 3.36 15 yrs 3.48 20 yrs 1.47 Imed.† 7.81 8.29 8.39 8.35 7.82 8.94 8.57 6.83 7.67 7.61 5.94 6.73 6.48 7.96 10.39 1.36 3.21 6.52 9.84 8.52 9.84 8.53 122.05 122.06 2.72 7.47 7.48 8.29 7.51 7.51 8.49 ٧. 0.0000 0.0000 0.0000 145.70 160.34 184.75 145.78 160.83 184.87 02/08 05/06 12/05 03/06 03/06 02/06 02/06 02/06 02/06 02/06 01/06 02/05 01/06 02/05 0.43 2.79 3.31 4.67 2.90 8.21 8.28 6.31 8.19 8.26 8,30 8.29 8.36 8.22 8.20 8.36 5.31 8.34 8.56 8.51 0.00 7.28 0.00 7.70 7.23 5.53 6.41 104,9400 -0.300 0.0000 -0.0000 -All stocks (57) 5 141.44 -0.06 141.56 3,14 italy tion 10% -0.00 0.00 7.52 OAT IN NOTIONAL ITALIAN GOVT, BOND (BTP) FUTURES (LIFFE) Line 200m 100ghs of 100% May 1 Apr 30 Yr. add May 1 Apr 30 Yr. ago Index-Unkad Germa Ineland Italy Japan 6.31 7.53 9.69 2.39 3.33 6.27 8.91 0.0000 0.0000 -0.170 0.0000 -118,5760 +0.040 87,2270 -0.170 97,8000 -0.220 8.000 9.500 8.600 3.000 8.000 -0.03 195.69 -0.02 187.27 -0.02 187.33 195.69 187.27 4.43 1.33 1,40 Up to 5 yrs Over 5 yrs 1.15 3.50 Up to 5 years (1) 0.12 1.31 2.60 3.71 2.57 3.71 1.21 3.51 195,64 1.83 0.00† 2.51 3.99 6.31 0.00 Sett price Change Est, vol Open Int. Open High LOW Over 5 years (11) 187.22 187.28 All stocks (12) 1.28 114.27 -0.30 114.81 113.84 113,68 114.27 114.02 113.60 113.35 17530 64025 Jun Sep Netherlan Portugel Spein Sweden n Bendet Low: 0%6-7%%; Medium: 8%6-10%%; High: 11% and over, † Flet yield, yid Year to date 113.60 224 719 11.875 10.150 8.000 8.000 0.0000 0.0000 0.0000 I ITALIAN GOVT, BOND (BTP) FUTURES OPTIONS (LIFFE) Lin200m 100ths of 100% 0.00 0.00 7.38 9.14 8.26 7.42 CALLS PUTS Strike Price Sep Sep Jun Jun

By Antonia Sharpe Saint Gobain, the French glass and construction materials

year syndicated credit facility. double the amount it was originally aceking.

to be in tha deal was such that \$1.4bn was raised in general syndication, almost three times the initial target, but the company decided to limit the size of the facility to \$1bn.

Saint Gobain doubles credit facility to \$1bn

BONDS

Society had the eurobond stage to itself yesterday, with Japan and most of Europe closed for national holidays. Undistracted by other offerings, UK fund managers -

especially long-term investors such as life insurers and pen-

INTERNATIONAL

sion funds – snapped up the £300m 25-year snbordinated bond offering, which sold out only hours after launch, lead

manager SBC Warburg said. "Halifax is a very strong name in the sterling market they're a very rare issuer, and

the pricing was fair," said a syndicate official at another house. The bonds were priced at a spread of 100 basis points over gilts, which narrowed slightly

after they were freed to trade. The pricing was tighter than comparable secondary subordinated bank bonds, but dealers said that was justified by the

By Roula Khalaf borrower's rarity value and

It was the Halifex's first dated subordinated bond issue ranking as Lower Tier 2 capital

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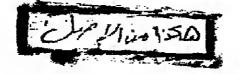
per cent of the companies will be sold, but insist that progress

on the privatisation front is likely to be made at last. Stocks on the Egyptian exchange trade at a cheap

Egypt. A total of \$20m is said age. But out of the 700 companies listed on the exchange, only 100 actually trade while 30 stocks represent over 50 per cent of the total \$8bn in market capitalisation. The market was down 19 per

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FINANCIAL TIMES SURVEY

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Thursday May 2 1996

PENSION FUND INVESTMENT

Pay now or suffer later

Funded plans could meet the world's growing pension costs, writes Barry Riley

n many countries around the world demographers are looking ot projected population statistics over the next 20 to 50 years with sentiments varying from concern to alarm. Pay-as-you-go social security systems are buckling under the strain: for example, in the French civil service the number of active employees per pensioner is projected to fall from 2.5 to 1.4 by 2015. is the choice therefore

betweeo a ruioous reduction in benefits and a catastrophic increase in taxatloo? Not necessarily: an increased role for funded pension systems could help to close some of the gap. But it will depend on whether new pools of long-term capital, wisely invested, can serve to edge up economic growth rates and create more wealth to pay for future pensions. The conditions could be coming into place, therefore, for

substantial international growth in pension funds, But a oumber of very different models are on offer, with a variety of implications. lronically the best-established model of funded pension

plan, the defined benefit occupational scheme, which has become widespread in the US and the UK, is actually in decline. Shrinking company workforces and cost-cutting employers bave undermined their dominance. There are some interesting perspectives on this in a round

iable discussion transcript pro-duced by the UK performance measurement consultants World Markets. In Britain, WM's panellists point out, teosions are rising between the

Shigh investment return (that is, cost minimisation) objectives of sponsoring companies and the enhanced responsibilities of pension fund trustees under the Pensions Act 1995. Those tensions could become irreconcileable.

Other models could nevertheless generate the enormous volumes of capital required to ficance future pensions. But there are three big obstacles: Nationalism. Governments are often anxious to prevent pension funds from investing overseas;

Regulations. Pension funds are sometimes forced to provide cheap finance for governmeots, under the guise of prudential controls: Paternalism. Schemes run

by employers often skew benefits and penalise groups such as mobile workers.

What are the models on offer? To begin with, much intcrest has been generated by the progress of the Chilcan formula for the modernisation of social security.

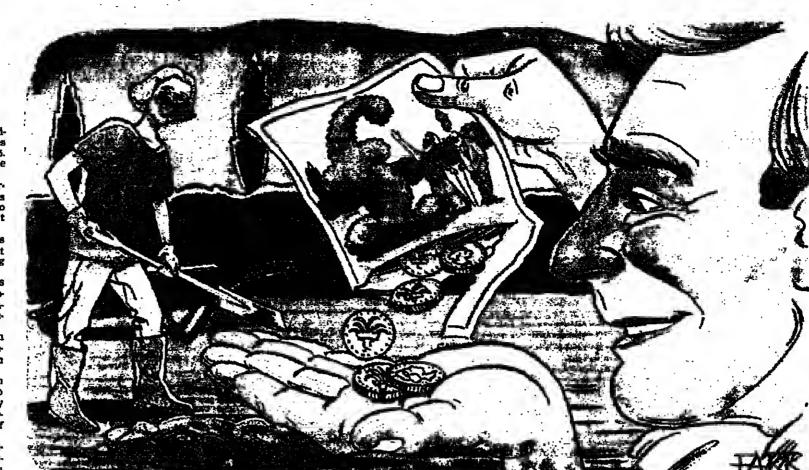
Established in 1961 as a successor to a near-bankrupt payas-you-go arrangement, this system is now at a reasonably nature stage of development. It involves employees paying

compulsory contributions of 10 per cent of earnings into 21 private sector investment institutioos, or administradores de jondos de pensiones (AFPs).

Negative returns by these funds in 1995, gave the system o jolt, but in general the high savings ratio has supported n healthy economic growth rate. Funds may be transferred between different AFPs. But all operate under tight restrictions, including o requirement to invest at least 50 per cent of their assets in public sector

bonds. Another unconvectional model which has attracted interest is Singapore's Central Provident Fund, which was set up while the island was under British rule back in 1955. But with contributions at a

massive 40 per cent of income, and investment limited to government debt and infrastruc-



ture projects, Singapore's allembracing system bas little appeal outside highly centralised states.

In the US there has been rapid progress by defined contribution achemes, company plans without any guaranteed level of pension, the latter depending entirely on the capital accumulated by each member. These schemes are likely to prove cheaper for employers than most other alternatives. and certainly involve less risk

for them in the long term. It is generally thought that many British companies will soon switch to defined contribution schemes, at least for new employees: Barclays Bank last month announced lts intention to do so, for instance. Defined contribution plans must follow a more cautious Investment strategy than defined benefit counterparts.

Thia is because individual

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members with finite - and possibly short - periods until retirement are less able to bear investment risk than future neficiaries of a shared fund with an indefinite life span. More sophisticated structures. now allow members of defined cootribution plans within a few years of retirement to opt separately for lower risk investments.

variant of this structure A is the employer-spon-sored personal pension plan, the most successful example of which is the 401(k) plan which is growing so rap idly in the US. Here the individual often takes the investment decisions as well as the risics.

The accelerating flood of 401(k) money into equity mutual funds has boosted Wall Street in recent months but has also created anxiety about ment bontiques which has political hot potato in the

future instability should members switch their funds into bonds or money funds, perhaps in conditions of panic. Any shift towards personal

pension plans, either employersponsored or free-standing, would expand the role of retail investment institutions at the expense of the specialist institutional pension fund managers which have become ao important in the US and the

The institutions that would prosper in this environment would have to be well known to the public and have the systems to deliver a personal service, possibly including advice on investment switching as well as valuations and

reporting. In the US, for instance, this could be expected to lead to a reversal of the consultantdriven proliferation of invest-

been such a feature of the past run-up to the next general electwenty years. There could be a new burst of expansion for the big mutual fund and retail stockbroking groups. But such

a structure would be inherently much more expensive. In Australia, life assurance companies stand to benefit greatly from the introduction of mandatory contributions into approved pension plans, rising in stages to 12 per cent of pay (taking employer and employee contributions

together). The element of compulsion reflects official alarm at the future increase in the population of pensioners, and the potential build-up of the government's liabilities if individual citizens do not themselves save for their old age.

pension fund managers do In the UK this question is now, but the relationships also being actively debated, would be with individuals although it is something of a rather than with trustees.

IN THIS SURVEY

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Editorial production: onathan Guthrie Graphics: Robert Hutchison Steven Bernard Dealgn: Frances Trowsdal

point was made that defined benefit pension schemes bave geoerated very high returns because of their large exposure to equities. Defined contributioo plans, even when they have very low costs, are likely to be less efficient at delivering future pensions,

The worry, perhaps, is that far too much of the world's burgeoning pension fund cootributions will be channelled into government boods. In many countries this will be a statutory requirement.

To the extent that these bonds simply finance current fiscal deficits they represent an extra tax burden oo future citizens rather than real assets that could help to pay all those pensions in the 21st century. How much better it would be to put some privatised industries into their pensions pots. They should do more of it in Chile.

tion, given that there is not

much conceptual difference

between a compulsory pension

Last year the Retirement

Income Inquiry, a committee of

experts backed by the National

Association of Pension Funds,

proposed a National Pensioo

Scheme (NPS). This would pro-

vide for the 50 per cent of workers left outside the scope

of existing occupational peo-

sion plans. The NPS would establisb

Chilean-style designated fund

management companies which

would be required to operate at

rock-bottom cost levels. They

would compete for membership

on the basis of investment per-

formance much as institutional

At the WM Round Table the

contribution and a tax



selecting investment managers, you must be fully informed.

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2 PENSION FUND INVESTMENT

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Passive managers: by Philip Coggan More funds will succumb

Index funds can win more pension fund clients before natural limits restrict growth

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It is a testimonial to the marketing skills of active managers that they have been able to hold their own in the face of competition from indexers

The evidence would suggest that pension fund trustees should be using index managers more than they do. In UK equities, active managers have underperformed the FT-SE All-Share Index in eight of the last 10 years, although in three of those years (including 1995) the underperformance was only 0.1 per cent.

In world markets, figures from performance measure-ment company WM show that managers lagged the index in six of the last 10 years, notahly in 1995 when they were heavily underweight in the fast-growing US market.

However the heavy weighting that UK managers tend to take in the Pacific region means that over the last five years as a whole they have actually ontperformed the world index, thanks particulariy to a good performance in 1993, when they beat the index by 11.3 per cent.

The record of active managers in recent years has improved, perhaps because there has been a tendency for funds to concentrate in the hands of the best of them. There may also be a sense in which trustees think they would be "giving up" on trying to get the best returns for their fund if they opted for passive managemen

The proportion of the UK. pension fund market run by index fund managers is around 15-20 per cent, compared with around 30 per cent in the US.

There is undoubtedly a natural limit on the proportion of funds that can be indexed. The intellectual argument in favour of indexation is based on efficient market theory; the

thesis that the price of a commodity reflects all available nawe and that only future events, which by definition are unknown, can move prices. To make the market efficient, there need to be plenty

of active managers trawling the market for bargains. Once indexation predominates, markets would, by definition become inefficient, giving active managers scope to outperform. Many investors reject the

intellectual case for efficient markets, and it certainly has been possible to find anomalies such as the outperformance of small companies or high-yielding stocks - which cast doubt on the theory. It is also difficult to deny, in the face of records such as Mr Warren Buffett's, that a few individuals have been consistently able to demonstrate an

ability to beat the markets. While it may be possible for vestment managers to beat the market, it is not so easy for trustees to identify them in advance. "The justification for index-tracking is that, while skill does exist in the City, it cannot be reliably pre-identifled," says Mr John Shuttleworth, actuarial partner at

Coopers & Lybrand. Index-tracking also has the advantage that its costs are always likely to be lower than those of active management. Active managers must recruit highly-paid staff and cover their expenses as they travel

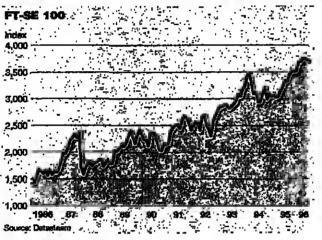


the country, or the world, interviewing companies. Second, an active manager will incur heavy transaction costs as he or switches between stocks in search of a winning formula. According to Mr Sbnitleworth, the average active manager does about five times as many transactions as an indexer. Add in the fact that trustees

can be assured of a decent performance from a tracker (they will not be top of the pack but. far more importantly, they will not be bottom either) and it seems likely that indexing will make further gains. That would certainly seem

to be the view of Barclays de Zoete Wedd Investment Mannt, which last year took over Wells Fargo Nikko **Investment** Advisors to create a group with some \$250bn under management, including \$200bm in indexed form. Other managers noted for

their strong bottom-up philosophies are having to move closer to the indexed route. Fidelity, the US fund management giant, continues to insist that stockpicking drives returns, but assures its institutional clients that its 10 largest positions will be no greater than 25 per cent of the group's



Though the majority of "active money." The latter is defined as the difference

between a stock'e index weight and the actual weight in Fidelity's portfolio. Fidelity'e aim is to provide superior returns while reducing volatility.

tion decisions, and use, where possible, index funds specific pean Management. But asset allocators do not

One quant firm, Panagora, have that impressive a track which operates out of Boston record, meaning that the gains from matching the indices can and London, is currently trying to tackle this marketing be lost by incorrect country blockage head on by launching selection. The answer to this a balanced product in the UK, called Structured Balanced problem may lie is some sort Passive managers are also at

"People are not interested in a disadvantage in inefficient strategies that are not explainstock markets, notably those able," says Mr Anthony Simpson, Panagora's head of marketing. The product offers familiarity, in that it is benchmarked, for example to the WM 2000 asset allocation. At the same time it aims to use quantitative techniques to add value both on a top-down asset allocation basis and at the bottom-up stockpicking level.

The debate is certain to rage on for a while. And it is of far more than academic interest. Coopers & Lybrand's Mr Shuttleworth says that indexed funds have outperformed active managers by 0.5 per cent in the UK in the last 10 years. "This may look small, but if maintained indefinitely by a company whose actuary says an annual employer's contribution of 10 per cent of payroll is needed, the 10 per ceot will fall to 8.5 per cent. At the profit and loss level, for many companies 1.5 per cent use optimisation techniques to of payroll is serious money."

Quantitative techniques: by Barry Riley

The conservatism of pension fund trustees has limited the growth of these methods

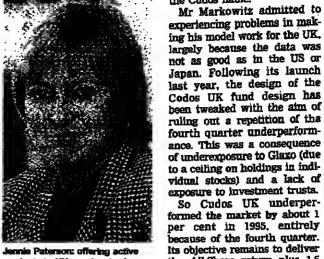
quantitatively-managed portfolios are run passively - which means that they track various stock market indices - there are strong incentives for quant managers to get into the active management business, where fees can be much higher. This is hig business in the

US, where pension plan sponsors are much readier to allocate money to non-traditional investment managers than in Europe But in the UK, in particular, quantitative firms find it very difficult to persuade trustees that they should do something a little differently from their peers. "In some ways the UK is the toughest of the lot," says Ms Jennie Paterson of Barr Rosenberg Euro-

Strategy.

What exactly do quants do,

apart from giving their firms peculiar names that usually begin with P or Q? The definitions are becoming increasingly blurred, because these days many mainstream fund managers use quantitative techniques, at the very least to measure and constrain their risks against their benchmark. In principle quants rely on purely statistical or systematic methods of choosing between individual stocks or asset classes. Typically they rely on powerful computers to crunch the numbers in databases and



products to UK pension funde

choose the best markets to be in, based on past volatilities and correlations.

Another approach is to analyse the factors which are driving the market, as London firm Quorum does, closely tracking measures such as price-to-book or other value indicators across a number of European stock markets.

High-powered US-based investment gurus are now focusing oo the potential of the European pension fund market place. The investment manage-ment firm set up by Californian one-time academic Mr Barr Rosenberg, for instance, has recently picked up a £50m active UK equity account for the Kingfisher retail group. It has also won mandates in the Netherlands and Scandinavia. Rosenherg has developed active equity products for leading markets such as the US. Japan and the UK and also seeks global mandates. Although performance went through a bad patch a few years ago it claims its valuebased formula is delivering outperformance of between 2 and 4 per cent a year, with the UK at present near the top of that range

The Nobel Prize-winning Modern Portfolio Theory pioneer Mr Harry Markowitz has also developed active equity products for the US, Japan and the UK. He is working in partnership with Japan's Daiwa Securities, and has a marketing link with Commercial Union in the UK where, its products are marketed under

experiencing problems in making his model work for the UK, largely because the data was not as good as in the US or Japan. Following its launch last year, the design of the Codos UK fund design has been tweaked with the aim of ruling out a repetition of tha fourth quarter underperformance. This was a consequence of underexposure to Glazo (due to a ceiling on holdings in individual stocks) and a lack of exposure to investment trusts. So Cudos UK underperformed the market by about 1 per cent in 1995. entirely because of the fourth quarter. Its objective remains to deliver the All-Share return plus 1.5 per cent, over rolling threeyear periods, net of fees. Other London quant firms have focused on a variety of

the Cudos name.

products. Pareto Partners, for instance, has taken on a lot of currency overlay work for US pension plans, which involves controlling currency risks separately to those from underlying investments, and ideally adding extra return.

US pension plans are also interested in so-called tactical asset allocation (TAA), in which quant techniques are used to optimise allocations to equities and bonds globally. There are plenty of tempting

possibilities here. For instance, one firm, First Quadrant, has done interesting work to show that simple rebalancing to a benchmark can add significant value over an extended period. But a recent investigation by the performance consultants World Markets, covering 23 fund management houses. mostly from the US, suggests that TAA's benefits - if they exist - are hard to pin down. The quantitative investment management side of the Barclays Bank group has now become the world's biggest quant manager through the takeover last year of the investment side of Wells Fargo.

Although BZW Asset Management, as the combination is now called, is best known as the dominant manager of index funds, worth some \$180bn at the end of last year, it also runs some \$70bn in funds with active strategies, mostly using forms of TAA. The number two in the field



Colin McLatchie: disciplined tools are needed for asset allocation

in the US. State Street, is also well established in London, and has been promoting emerging market strategies where it relies on a combination of asset allocation judgments and local index funds.

So far many of these active quant firms have gained most of their business by selling global products to the US or specialist funds to the Continent. The big opportunities in the very conservative UK peoeion fund market remain largely untapped.

Panagora's new approach is to spurn the normal specialist route and go for mainstream balanced accounts, presumably reckoning that there are many pension funds out there stuck with disappointing traditional balanced managers.

Simulations indicate that the firm'e systems can deliver reliable top quartile performance. after fees, on a three-year rolling basis. Unlike conventional UK balanced managers, who rely almost entirely on stock selection to outperform. Panagora aims to add value through asset allocation too.

"Other people don't have any disciplined tools to make the asset allocation decisions," claims Mr Colin McLatchie, the firm's chief operating officer in Europe.

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Bnt the history of quant ehows that all too often it can be a tough task to turn simnlated outperformance into the reality of long-term client satisfaction - end doubly difficult in the field of UK company pension schemes,





In the international context, the issue of index-tracking is tied up with a debate about the relative merits of balanced and specialist management. A fund could either match the world index. with accordingly heavy weightings relative to its peers in Japan and the US, or make its own asset alloca-

to each country.

of mechanical rebalancing

of emerging countries. In

Korea, for example, local investors are fixated on the

par value of stocks and avoid

highly-priced shares; as a

to have high price-earnings

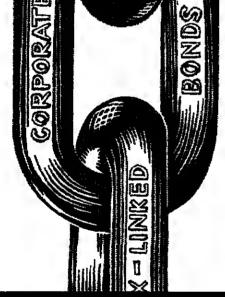
ratios and vice versa. Such

markets create greater oppor-

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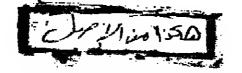
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FINANCIAL TIMES THURSDAY MAY 2 1996

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to actuaries William M Mercer

What remains ambiguous is

just how far trustees must go

towards setting out their

expectations of returns and

in the past, Mercer ootes.

trustees have had problems

putting specific investment

objectives into practice, partic-

ularly when they have asked

an investment manager to fol-

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Boards have to clarify their aims

returns differing little from Pension scheme those of a scheme's peer group but which may not have trustees will have to state their matched the domands for cash generated by its liabilities. investment The whole area of invest-

Trustees: by Norma Cohen

meot is a hit of a grey one," says Mr Trevor Crowter, part-ner in the actuarial practice ot The Pensions Act, which takes effect next April, is a wateraccountants KPMG Peat Marshed in many respects. wick. "Certainly trustees will its most revolutionary aspect is the way it codifies the duties

have to set out their aims and objectives, but so far, the wordof scheme trustees, and in paring is so vague that no one ticular, those duties relating to knows what that means." Further clarification is due It requires trustees to set out this summer from the Departa statement of their invest-

ment of Social Security, but ment polictes including details even then, it will be up to of expected returns and risks. trustees to interpret the rules. This is a tall order. "The One question which remains guidance in the Act on the conunclear is whether trustees teots of the statement is not 100 per cent clear." according will be required to conduct an



often produced a stream of Goode: proposed new rules

Custody: by Norma Cohen Funds wake up to the dangers

High investment costs and tougher client briefs are prompting a shake-up

For pension fund trustees, the custody of scheme assets had bistorically been, at best, a dull housekeeping issue. Dull, that is, until the late Mr Robert Maxwell disappeared overboard five years ago. The Maxwell affair alerted

trustees to the possibility that there are more ways to lose money than simply picking the wrong asset mix. Assets, they learned, can go missing overnight if one is not careful, and by all accounts the level of vigilance has increased.

Since Mr Maxwell's death there has been a sea change in ager. "The trend is only one what trustees expect from way," Mr Kay says. "The first

Pension funds were hadly shaken by the collapse last year of Barings, the UK merchant bank whose operations included a substantial fund management division and a custody business. Although securities beld for clients by the custody business were safe from claims by creditors, the client cash had been placed on deposit at Barings banking division. Had the hnyers of Barings, ING Bank, not agreed to make good the liabilities,

over £600m in client cash could have been at risk. Mr Robert Kay, partner at **Global Securities Consulting** Services, which specialises in custody, says that if anything, the Barings collapse has has-tened the tendency for pension schemes to choose a custodian separate from its fund man-

asset/liability study to gauge the extent to which their investments are likely to produce the cash needed to pay pensions. While it is generally accepted that equities outper-form gilts over the long term, gilts are the investments carrying the surest guarantee of steady luture cash flow. And the increasing maturing of the

average UK pension scheme suggests that trustees must reallocate their investment portfolios more heavily in favour of gilts in order to reduce risk. Data from WM Company shows that currently most schemes have done little to match their assets and liabilities. A review of 154 schemes showed only six whose investments in "real" assets - equi-



Bagot: equities holdings unlimited

tics and property - were less than 70 per cent of the total. These included o group of "super mature" funds which conventional wisdom says should have been benvily invested in gilts.

The Act does not ask trustees to run a totally risk-free investment policy. They must simply understand the risks their strategy poses. Mr Gordon Bagot, director of

research and consultancy at performance measurers WM Company, says that trustees of a well-funded scheme who expect their employer to be around for a long time to come can justify an investment strategy designed to maximise returns rather than reduce risk. And that, he says, means running a portfolio beavily

weighted in equities, even when current and deferred nensioners outnumber contri-After all, investments in UK

equities over the past 10 years have delivered the best long-term results, two percentage points a year ahead of the next best asset class, overseas equities and bonds. However, Mr Bagot concedes

that this strategy might mouline the company to add cash occasionally in a year when investments provide insufficient returns to pay pep-

sions. "It might be in the long term interests of the company to take the risk of having to put cash in periodically," Mr Bagot says. The difficulty with this, he notes, is that the Pensions Act.

which is based on the work of a committee chaired by Professor Roy Goode, gives the responsibility for settiog iovestment strategy to the trustees. But it is the company, the ultimate provider of the needed cash, which must really make the decision about how much risk to take on. If trusiees make one assessment of risk and the employer another, confrontations are likely to ensue, Mr Bagot notes.

The oew Act poses other troubling questions for trust-ees on the investment front, he adds. For instance, if trustees decide that it is really appropriate to alter the asset mix. when should that shift occur? "Do you want to move into bonds when interest rates are at their lowest and then get killed when they rise again?" Mr Bagot asks. And if they make the wrong decision, could trustees be said to have failed in their fiduciary responsibilities to scheme members? It is easy to imagine the sorts of discussions that trustees will be having with their advisers in trying to come to



PENSION FUND INVESTMENT 3

grips with their legal obligations on thorny questions such as these.

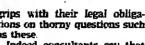
one by-product of the Act will be demand for more and better trustee training. Mr Roger Urwin, senior partner in the investment practice at actu-aries Watson Wyatt and Co says that while most trustees mean well, they too often do not have the skills required of them under the new law.

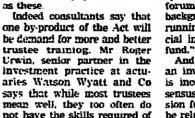
right, their integrity is of a trustees; the selection and

very high order," he said, appointment of fund managers. speaking at a WM Company forum. "But their skills and custodians, and other advisers. But while these formalised backgrounds are just not up to responsibilities for trustees running a big, complex financial institution like a pension And when it comes to setting

> Principles (required under the Act), schemes really need to address their objectives," con-sultants at William M Mercer say. "This is a very good thing to do, with or without the

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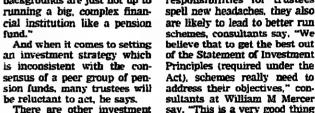




"Trustees' attitudes are duties the new Act delegates to

an investment strategy which is inconsistent with the consensus of a peer group of pension funds, many trustees will

There are other investment Statement."





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they require gold-plated guarantees on the safety and security of assets, but they want to know at every minute of the day where their securities are, what yields they are returning and where their cash is.

The growing demands placed on custodians by pension scheme trustees and administrators has hastened one of the most fundamental changes in the industry. The need to invest constantly in information technology has caused a significant number of providers to decide that they no longer want to be in the business at all.

Over the past year, US-based JP Morgan sold its global cus-tody business to Bank of New York - a move also made by Bank of America. National Westminster Bank sold its custody business to Lloyds Bank. while Prudential, the UK's largest life insurer, abandoned lts in-honse cnstody operations. UK fund managers Henderson Administration and Barings Asset Management have done likewise. One of the forces driving the

is the new Pensions Act which

their custodian. Not only do and main reason is risk man agement." Clients want to ensure, first,

that the custodian of their cash is financially sound. Second, he says, they want to know that their investments are dispersed among several banks so that even if one becomes insolvent, they have ouly lost a relatively small portion of their assets.

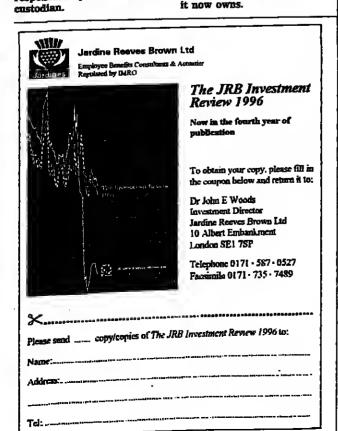
Beyond narrow concerns about the custody of cash, the collapse of Barings has made trustees focus on the financial strength of their custodian. One of Baring Asset Manage

ment's first acts after It was acquired by ING was to announce that it would abandon its in-bouse custody arm and select a "custodian of choice" for its clients and negotiate a bnlk contract which would get them better terms than if they found a new custodian individoally.

Barings' move, consultants predict, is likely to be followed hy many UK fund managers who have been offering their own custody service. Indeed, SG Warburg, the former parent of fund Mercury Asset Management is understood to be talking to prospective huyasolidation, consultants say, ers for the MAM custody and specifically gives trustees the fund administration husiness responsibility for selecting a it now owns.

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More than just a pretty face

Once again Prudential Portfolio Managers have delivered some outstanding investment results. In 1995 our balanced segregated pension fund performance put us ahead of the upper quartile.* For our retail funds we won eight Micropal Awards and three Money Management Awards. In the

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1995 Sunday Times Unit Trust Awards, we were acclaimed best International Fund Manager.

All in all, an attractive investment record

for our

clients.

*Source: The WM Company.

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4 PENSION FUND INVESTMENT

Risk-averse employers warm to money purchase plans

The patience of managers with money purchase expertise could be rewarded soon

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From July 1 oew members of Barclays Bank's pension plan will pay their cootributions into a defined contribution (DCI scheme. This means the bank's old defined benefit (DB) scheme will shrink in years to come, as its 67,000 members retire and its £7.7bo in assets are paid out in pensions.

Investment managers predict tbat many large companies will follow Barclays' lead. As its name implies, only the cootribution level of a DC scheme is fixed in advance. The size of the member's pension depends on huw well his or ber individual investment fund performs. The employer does not have to pay higher contributions if performance is poor, as is the case with a DB scheme, in which members' pensions are set as a proportion of their final salary. Moreover sponsors of DC, or money purchase, plans will not have to meet the cost of complying with complicated rules on solvency that will he imposed on DB schemes by the Pensions Act.

An crosion of job security in the UK labour market means that employers can switch to DC provision without seriously damaging relations with existing employees or competitiveness in attracting new ones. According to a recent survey hy third-party administrators Hartshead Solway, more thao half of schemes considering changing their benefits structure thought they might introduce money purchase plans.

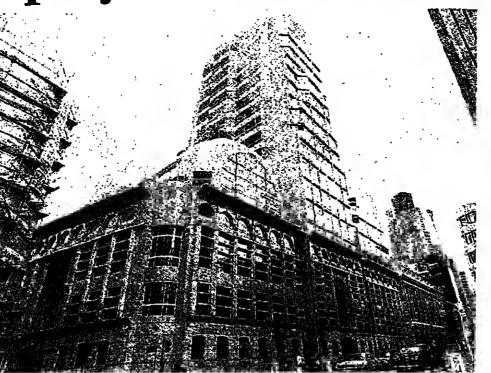
Companies that have set up DC plans recently include WH Smith, Standard Chartered. Pearson - the oweer of the Financial Times - and Legal & Ceneral.

DC plans have always been popular with smaller employers. Insurers such as Pruden-Sun Alliance and Scottish tiał Equitable bave traditionally serviced this market, providing investment managemeot and scheme administration in a single package.

City investment managers have rushed to set up DC investment services with the aim of winning some of the new business emerging from hig employers. This group of providers includes Mercury Asset Managemcut (MAM). Gartmore, Schroders, Flemings, Fidelity and Morgau Grenfell

At present these latecomers are like surfers paddling around on a calm sea, waiting for a hig wave to pick them up and carry them forward. The assets of DC plans are small compared to those beld by DB mes - just £10bn out of a total pension fund market of £600hn, according to one estimate. But they should build up rapidly as the swelling stream of contribution payments is hoosted by stock market growth.

Mr Philip Beale, director of institutional marketlog of Fleming Investment Management (FIM), says: "What is attractive about the market is its growth potential. We were expecting that it could grow to betweeo £20bu to £40hn in the next 10-15 years. The Pensions Act has made us revise that upwards to £50bn to £100bn." Those investment managers. who, like FIM, are out inte-



Barclays Bank is just the latest big British employer to sat up a DC plan to provide benefits for new entrants

grated departments within a large insurer, are estimated to manage little more than fihn in DC scheme assets. But they are catching up rapidly. According to the magazine Pensions Management, in the year ending in March 1995 Mercury Life - an insurer wholly-owned by MAM - received premiums of £165m from DC schemes, just £10m less than the Prudeutial. The previous year it look only £77m against the Prodential's £450m.

Traditional investment managers have an importaot advantage over insurers in the battle to manage the assets of hig companies' DC plans: a

cosy relationship with benefits consultants. Cynics say the consultants are unlikely to recommend an losurer offering investment and administration as a package. They cau make more money by advising the clieot to use a specialist investment manager, and supplying the administration themselves. According to Mr Alex Wel-

land, managing director of Gartmore Pooled Pensions: "With final salary schemes the focus of customer service is on the trustee, but with mooey purchase it is on the member as well." The latter is often giveo the chance to choose

behalf of trustees.

their policy on voting rights. But it has been far from unt-

versally taken up. One reason is that many

doubt whether guidelines can

governance is aboot. Mr Bugh

Stevenson, chairman of MAM,

says: "A formal checklist inev-

itably overlooks some of the

things that matter most to us,

fully capture what corporate

how their fund is invested. Freedom of choice means freedom to make the wrong choice. An example would be a member approaching retirement who gambles his fund on volatile Far Eastern markets. According to received wisdom be should really invest in lowgrowth, low-risk securities, such as gilts, to lock in long-term capital gains.

To avoid hlunders such as these many providers allow trustees to bar members from nsing their riskiest investment funds.

Some investment managers and insurers also offer their corporate clients DC schemes

that incorporate a "lifestyle" plan. These switch members' funds from high to low-risk iovestments as they age, assoming they do oot want to make their own investment choices. Younger members' funds buy assets that deliver long-term growth at the price of sbort-term volatility, such as equities. Older members' puts are invested much more beavily in gilts.

Lifestyle plans are designed to benefit members who do not want to make their own investment choices - usually a majority of around 80 per ceot. according to Mr Beale of FIM. And in theory they should produce higher fund values at retirement than the investment methodology adopted hy those insurers who put all money from DC schemes into managed and with profits funds. The gilts weightings of these pooled investments - up to 25 per cent for some withprofits funds – can prove too high for younger members, but too low for older counterparts. investmeet managers take a risk-averse attitude to investing DC assets. This reflects the objectives of their corporate clients, who have little to gain from a high-risk, high-reward strategy. There is no scope for cootributions holidays or a return of surplus. And if investments perform badly, the

income will make the scheme's trustees and sponsor hngely unpopular with members. DC plans' investments are border to administer than those of DB schemes. This partly explains why investment managers charge 20 basis

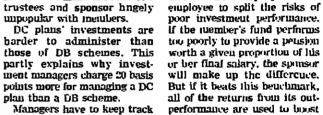
plan than a DB scheme Managers have to keep track

of a separate pot of assets for each member, who sometimes takes a proprietorial interest in bow it is handled. For example members and trustees expect contributions to be invested far more quickly than peers with final salary schemes Making tax reclaims un

investment returns is a bugbear for investment managers who place their clients' DC funds in their own range of unit trusts.

Those integrated into or affiliated with an insurer bave an advantage here, because they can pay back tax jutu their taxexempt funds gross. In cootrast unit trust firms have to split reclaims laboriously between the tax-exempt investors who use their ranges of unit trusts. This is one reason why some investment managers. including MAM, have set up life offices as a springboard for eutering the money pur-

chase market. Few hig employers who are establishing muney purchase plans are winding up their old final salary schemes. Most are running the two in parallel. The approaches they adopt range from allowing new entrants to choose between joining a DC or an DB scheme, to restricting membership of the latter to their existing employees, Some companies are introduresulting cut io pensions cing hybrid schemes. These allow the employer and



Philip Beale: Pensions Act has sted the market's potential the pension. These plans allow employers

to reduce their pensions liabilitics while reassuring employees that bad investments cannot seriously damage their level of retirement income. If they are widely adopted the battle for dominance between DC and DB schemes will have beeu resolved in a very Britisb way - by a compromise.

Alex Weiland: the member is a

client as well as the trustee

Corporate governance: by John Kingman

's reluctant activists

The voting power of investment managers has placed them centre stage

Tbanks to this year's bard-fought battle for Forte, Britaln oow has something rather unusoal: a well-known **Investment** manager. Because Mercury Asset Management beld blg stakes in both Granada and Forte, the bid sbone a powerfol spotlight hoth on MAM and its vice-chairman, Ms Carol Galley, It also fuelled the dehate over lovestment managers' power and the ways in which it is exercised. Institutionat investors are increasingly seen as the front line in the battle over corporate governance. The reason is simple. The voting powers that investment managers' sobstantial shareholdings confer represent the most effective potential check on directors' freedom to run companies as they please. As concerns about corporate gnvernance have grown, so the potential for institutional investors to make companies change their poticies has been increasingly stressed. Inevitably, some have found the investment managers wanting. Sometimes, as in the Granada hid for Forte, they have been criticised for wielding too much influence. Conversely, they have been returns, even though public attacked for not bothering to exercise the power they have selling their stakes in companies they have lost confidence io, rather than taking the trouble to address deficiencies of strategy or management. Investment managers say their job is to maximise the return on their fands, not to police the wider public interest; anything else would be inconsistent with their daties to the pensioners, for whose benefit the funds are managed. But others worry that if institutional investors do not bother to press for change, nobody will. The Cadhory report, for instance, stressed the importance of investment managers seeing it "as their responsibility as owners, and in the interest of those whose money they are investing, to bring about changes in companies where necessary, rather than selling their shares". Sometimes, of course, they



Investment consultants: by Jonathan Guthrie few big firms dominate

ing how they exercise the vot-Scope for ing powers they wield oo cross-selling gives This approach folfils a large actuaries an recommendation of the Cad-hury report that institutions advantage in this should publish a statement of business

> The need to diversify druve British actuarial firms into investment consultancy. There was little scope for growth in their core business, actuarial valuations of peosion funds. Extracting more income from clients meant selling them a new product.

That product - advice to pension fund trustees oo

The most successful of these

The introduction of a mini

Mr Paul Halnes, investme

to data and methodologies use

ful in understanding their cli-

ents' llahilities. Meanwhile a

fall in the cost of computing

power has allowed them to

increase the sophistication of

Investment consultants aim

to diversify geographically as

well as in terms of products.

They are establishing new out-

posts around the world. Their

aim is to provide research and

advice informed by local know-

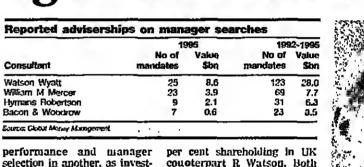
ledge, but which conforms to

There are three main prizes

at stake. The first is to advise

consistent global standards.

the service they can offer.



companies adopted the name ment becomes a more international business. The second is Watsoo Wyatt (WW) in a comto sell a consultancy service to hinatioo which executives multinationals that covers all insist ou referring to as an "alliance", but which for operatheir pension funds in coun-



Baker: more multimational work

Global Money Management,

last year WW advised on 25

publicly-reported mandate con-

tests, worth \$8.6bn in funds

under management, Witham M

Mercer's, its nearest competi-

tor, had 23 publicly-reported adviserships, on fenders worth

Mauy mandate contests co

inceported and consultancy

sources say WW actually

advised on 99 selection exer-

clses for funds worth \$16.7bu

that of a few pension fund

investment managers - perfor-

mance measurer CAPS says 20

per cent of them invest 82 per

cent of the money held in hal-

WW's dominance mirrous

just \$1.9bn.

have tittle choice: where institutions hold big stakes, selling ont can he difficult, giving them a powerful incentive to work with companies to Improve sharebolder returns. Both the Greenhury and Cadhury reports produced codes of practice which compamies were expected to follow. Neither expected pressure from institutional investors, on its own, to provide a solu-

tion to the corporate governance problem. This is not ooly hecause institutions can choose to sell the securities they hold. It is also because issues of public concern may not worry investment managers. For instance, they may have no difficulty with a company they invest in paying a big salary to an executive who has delivered hig

oomion is against it. On the other hand, they cannot afford to ignore "fat cat" salaries altogether. It is, for instance, in their interest as investors to encourage as close a link as possible between remaneration and shareholder returos. Moreover public storms over pay can damage sharebolders' interests: the forore over the large salary commanded by British Gas's chief executive Mr Cedric Brown, for instance, almost certainly hlt the British Gas sbare price.

In practice, where investment managers have published corporate governance policy statements, they have tended to shy away from executive pay. the most highlycharged of all corporate governance issnes, leaving it to company remuneration committees to handle.

Trustees and investment managers are becoming more



Cedric Brown: row over his pay

active on other issnes. Certainly they are vuting at companies' annual general meetings mure than they used to. The trade body of the pen-

sion fund industry, the National Association of Pension Funds, helieves they should do so, and even offers a "vuting issues service" assessing companies against a range of corporate governance criteria and highlighting contentious resolutions requiring sharebolder approval. The NAPF also encourages

pension fond trustees to develop voting guidelines within which, if necessary, delegated voting authority can be granted to investment managers. This is the approach taken, for instance, hy the rail pension fund. RailPen's trust. ees have issued a set of voting guidelines for their investment managers to follow, hnt expect "political, outstanding or worrying" issues to he referred back to them.

Several investment managers have meanwhile produced their own guidelines, explain-

such as the quality of noo-executive directors, or that corporate strategy is right."

Mr Derek Fowler, chairman of the RailPen trustees, agrees: "What is more important to our stakeholders - the pensioners -is whether the judgof the FT-SE 100 index's memment being exercised hy combers, now has 50 consultaots pany directors is in chalking up billable bours. compared with a handful at its shareholders' interests." start eight years ago.

As RailPen's corporate guv-The unit, along with competernance paper puts it: "Ensuring boards are in control of ing departments at firms such William M Mercer, Sedgwick the husiness, act effectively and have a sound strategy is Noble Lowndes, Hymans Robertson, Bacon & Woodrow more likely to achieve higher and Alexander Clay, is husy shareholder returns than developing a range of other 'hygiene' factors.' services.

British investment managers have traditionally exerted discreet pressure on compais the asset/liability study. a nies behind closed doors. Some comparison of a fund's potenbelieve a more direct approach tial future income with its is now needed. For instance likely outgoings. Demand is Calpers, America's largest brisk from maturing funds public pension fund, has those who face paying out suggested that British institumore money to pensioners tional investors should jointly than they receive from investuents and contributions. set up an institute to improve management at underperform-

mum funding requirement ing companies. So far proposals like these (MFR) via the Pensious Act have tended to receive a cool has also boosted custom. This measure, which will be implereception: many British Investmeoted from 1997 onward, will ment managers simply prefer eocourage funds to match their to work quietly. investments and their financial

The debate over trustees and fund managers' methods obligations more closely. is evolving fast. Once guide director at Sedgwick Nohle lines are published, pen ioner - on whose behalf they have, Lowndes, says: "The issue for investment consultants is out after all, been established calculating the lund's current will be able to comment on position in relation tu the them. They will also be able to hold trustees and investment managers to account, asking how far they have complied with the guidelines to particu-

operations, the majority are integrated into actuarial firms. This gives them instant access

selecting investment managers tries around the world. The third is to establish an early has been highly successful. The investment consultancy presence by countries that are setting up funded plans for the division of Watson Wyatt, the benefits adviser whose clients first time. The UK arm of William M include the pensioo funds of 40

Mercer is playing a lead role in spearheading the US-based benefits consultant's push into luvestmeot consulting in Europe. In May 1995 it took over the investment consulting firm Klein Haneveld io the Netherlands, a country with many big pension funds. This vcar it set up an investment consulting business in Spain. Mr Rohert Baker, depoty head of William M Mercer investment Consulting, says his firm is taking on an increasing amount of cross-border work for multinationals. adding "Often our role is to tell the centre what is going on at the periphery."

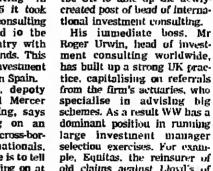
Mercer's most abvious international rival was formed in 1995 when US benefit consultant Wyatt took an effective 10

tional purposes looks like a merger The firm's lovestment practice is busy standardising

research from offices around the world. It is also rejigging lts managemeot structure, moving the former head of its US office, Mr Mark Scott to

the UK to take up the newly-

According to the newsletter



old claims against Lloyd's of London, recently appointed WW as its adviser in choosing managers to run fumbs that could be worth up to £10hm.

amed segregated accounts, Privately, investment managers who win few mandatos chim WW only recommends a handful of big investment managers for possible selection.

Ms Jane Welsh, a senior investment consultant at WW admils: "Inevitably if you're booking at placing very large pontolios you're restricted in the number of firms that can deal with them." But she says that her department takes a for broader view of the market than criticisms suggest - during 1995 it researched 100 investment managers and included 59 on short lists.

A consultancy, Cygnet Managainent Services, has recently been set up to help investment managers sell their services to investment consultants and pension funds. Co-founder Mr Charles Andersoo says: "There are well over 200 investment managers in the UK and a long list for a selection exercise is milikely to include more than ten ... Cygnet feels that some remarkably strong investment maoagers are oot being brought to the attention of the consultants."

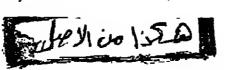
Pension funds sometimes fire luvestment macagers whose performance fallers. But they do not suck their investment consultants for recommending them in the first place. Watson's Wyatt's Ms Welsh comments: "They understand why we've put particidar managers forward, but ultimately it's their decision."

The beauty of the husiness, like any ronsultancy work, is that the advisor advises, but the client hears the risk.

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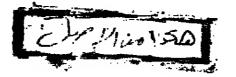


Equitas, reinsurer to Lloyd's, is running a huge manager selection clients based in one comitry on



lar cases Mr Fowler says: "It won't be long before pensioners start asking 'how did yon let this company get away with suchand-such for so long?' Once you get that, corporate governance will really come to life."

MFR, but whether investments will perform well enough to avoid hreaching the guidelines in future. Most UK investment consultancies have a particular advantage in undertaking asset/liability studies. Unlike their US counterparts, which are often stand-alone





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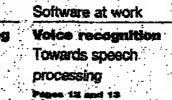
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Interview View from the top Chris Galvin of Motorola



Focus **Mobile Computing** Dynamic sector is set to take off



Directions **Computer Telephony** Recognition Learning to live together

Stockwatch IT companies How shares are performing

Information Technology

Wednesday May 1 / Thursday May 2 1996

Businesses fail to halt 'Ram raiders'

A spiralling crime wave is causing growing concern among law enforcement authorities, insurers and the business community, writes **Paul Taylor**

rmed thieves and so-called "Ram-raiders" have belped turn chip theft into a multibillion-dollar industry worldwide, and computer "hacking" and virus attacks are on the

increase. Computer theft is already the fastest-growing crime in the UK. Nevertheless, studies by independent consultants such as KPMG and Ernst & Young show that physical and other security is often lax and businesses are still doing too little to protect themselves from attack. In some cases, the consultants warn, this puts the very survival of busi-

es at risk. While the personal computer and computer network have become important business tools, they have also emerged at the heart of a spiralling crime wave which is causing growing concern among law enforce-

which, the firm points out, "are particularly important in the light of recent terrorist incldents." Specifically, three-

quarters of the compasurveyed do not have a designated security officer, 77 per cent have no formal procedure for reporting security incidents, and 67 per cent do not have a business continuity plan.

Commenting on the findings, Mr Michael Bacon, director of information security services at KPMG said: "Given the value" to organisations of both computer equipment and data, it is extremely disturbing that such a large number have failed to imple-



estimate that breaches cost UK companies more than £1.2bn a year with incidents rising at 12 per cent a year. Computer networks are particularly at risk

There are an estimated 8,500 com outer viruses in circulation with between 150 and 200 new viruses being written each month, mostly by young and male computer wizards.

Some virus authors have even formed "cyberpunk" gangs dedicated to causing damage and mischief. For example, one gang is called Vlad (Virus Labs and Distribution) while another is called Phalcon-Skism (Smart Kids Into Sick Methods).

While writing a computer virus is not an offence, damaging data is. Recently, the "Black Baron" was jailed for 18 months for causing more than \$500,000 of damage with his SMEG viruses.

In North America, a recent report on computer viruses conducted by the US-based National Computer Security Association, suggested computer viruses will cost North American businesses between \$5bn and \$6bn this year, up from just \$1bn last year.

The NCSA study, which involved 300 large organisations, discovered that 96 per cent had experienced computer virus attacks - and at least half of these involved the macro virus which affects Microsoft Word documents,

"The losses stem from costs related in finding and eliminating these viruses, as well as computer down-time," said Mr Peter Tippett, NCSA president

"At least half of the increase in losses has been caused by the new macro virus which is spreading faster than any other type of virus as it can travel by e-mail and can prove difficult to detect because most users do not scan documents for viruses.

Since the start of the year, most of the leading virus protection software vendors including McAfee have launched new products capable of detecting and deleting macro viruses.

However no amount of "firewall" security or anti-virus software will



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ness representatives. Dependence on computing power carries obvious risks. According to a Loughborough University study, 70 per cent of businesses that suffer computer failure of one kind or

lorit

another will be out of business within 18 months. Similarly, the latest Information Security Breaches Study by the National Computing Centre which covers more than 7,000 separate incidents, notes thet almost 20 per cent of reported security breaches had a "significant or serious impact on the organisation", and in 30 per cent of thefts and 16 per cent of all incidents it took more than a week to restore

operations. Nevertheless, a recent study by Ernst & Young revealed that although IT security was a big concern for managements in Britain, more than a third had no security

policy.

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A similar study by KPMG showed that 98 per cent of organisations in the UK and Ireland failed to implement the BS 7799 "Code of Practice for Information Security management." The majority of organisations also fail to meet the three key controls affecting physical security

ments."

Rather than the theft of complete machines, most physical computer crime involves the taking of components, especially valuable microprocessors and memory chips. In Britain alone, thefts of chips are estimated to have cost British industry flbn last year, with insurance claims approaching £200m. The largest single incident of any type recorded by the National Computing Centre involved a theft which cost

an estimated £750,000. Often the crimes are blamed on organised gangs, some armed, who have discovered that personal computers, chips and other components are easy to carry, difficult to trace and worth more then their weight in gold. The average thief can easily stasb more than £200,000 of stolen computer chips in a rucksack. In the US, where chip theft ~ including

armed hold-ups at Silicon valley semiconductor plants - is rife, one insurance company estimates the problem will cost companies \$200bn worldwide by 2000. Virtually no organisations are

safe from the crime wave although the majority of premises attacked have been commercial. Targets have



ranged from multinational manufacturers to national newspapers, public utilities and local government offices.

The average computer is likely to have about £500-worth of chips inside it, and is often sitting on a desk secured by only two screws in the computer case. Meanwhile, most chips are unmarked and even if stolen chips are recovered, it is usually impossible for police to discover where they have been stolen from. One way to make the tracing of computer chips easier would be for manufacturers to label them with pin numbers. Intel, the world's leading microprocessor manufacturer, does label batches of its Pentium processors with identification num-

bers and IBM has started numbering its memory and processor chips. However, most chip manufacturers argue that labelling individual

chips with unique numbers is impractical and would be too costly. To combat physical computer crime, a wide variety of protection. easures have been developed. Physical restraints, such as hard-

ware cases and tamper-proof bolts are used to attach the machine to a desktop or floor but are unsightly and can impair the users' productivity

motion detectors and electronic tagging systems for components. These are usually based on wireless radio transponders which can trigger local

and/or remote alarms or even sprav

identify the components. However, some computer manufacturers have

Alternatives include plug-in card ers and their components.

indelible dye over the components. Other security products include invisible identity tags which show up under ultra-violet light, microdots, smoke bombs and chemical mixtures designed to produce a a unique "fingerprint" which helps

suggested that some of these products might invalidate warranties. Several companies have also developed software programmes which monitor networked comput-

Some of the new anti-theft products are on display at Infosec 96, the UK's first big IT security exhibition, at London Olympia this week.

"Computer crime is now rife and spreading at epidemic levels," claim the show's organisers. More than 100 companies are exhibiting their latest IT security products, and the organisers have prepared seven fact sheets dealing with security "hot topics" such as encryption, disaster recovery and virus protection. Indeed, while physical computer

crime steals most of the headlines, computer crime also encompasses other activities such as hacking and virus attacks

In the UK, 80 per cent of organiations have suffered an IT security breach, according to data prepared by Ernst & Young and the Department of Trade and Industry.

Experts in the IT security sector

studies suggest that 60 per cent of computer abuse is caused by insiders. And virus attacks and backers are not the only IT threats to businesses. According to Blick Rothenberg chartered accountants, as much as £2bn a year is being wasted by British companies because of computer misuse and "time-wasting including 'surfing' tha Internet". Some 10m people in the UK now use computers in their work and if they only waste three minutes a day each then this alone costs British industry fibn a year.

While most of the losses to business are due to computer misuse, Mr Mark Ryan, Blick Rothenberg systems manager, said: "It varies from surfing the Net, to unauthorised computer use like the copying of software and more users than a licence permits, to poor documentation, data thefts, amendments to processing and data and computer iamage."

Mr Ryan believes that much of the loss is recoverable if business puts simple controls and management procedures in place. But if they do not, he warns, "the problem will grow and cost a great deal



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FINANCIAL TIMES WEDNESDAY MAY 1/THURSDAY MAY 2 1996

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Views from the top

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E Chris Galvin, president and chief executive of Motorola - Interview by Paul Taylor **Ready for the next surprises**

In order to help stimulate innovation, Motorola holds annual technology 'road map' meetings where business groups look at technologies 10 years ahead

in

Joe, proved adept at creating and exploiting new markets for the groop's technology ~ a strategy which has helped the Chicago-based electronics group grow into a business with worldwide sales last year of \$27bn.

Today, Motorola is the world's largest supplier of wireless communicatione equipment, its semiconductor businese leads the world in many of the markets it serves and it is frequently cited as one of the best run and most innovative companies in the world, "We create markets," says Mr Christopher Galvin. Paul Galvin's grandson who is Motorole'e president and chief operating officer. "In the early days we largely created the auto entertainment industry in the US-that is where the name comes from."

When Motorola'e founders began building car radios in the early 1930s there were no other suppliers and no market research. Despite this, Motorola's initiative led to the birth of a new industry. "That really began e pattern," says Mr Galvin, who first joined Motorola as e part-time employee in 1967

Since its beginning in the back streets of Chicago, Motorola has pioneered the two-way radio, pagers, cellular telephony and, most recently, satellite communications through the Iridium consortium which is building a global satellitebased communications network.

In many cases, new businesses have grown out of old ones - and then been continuously adapted to better fit customer needs. For example, Motorola developed voice paging - effectively half of a two-way radio - for doctors in the 1950s. Next came digital numeric paging, then alpha-numeric paging - and now two-way paging which has been introduced in the US. Round the corner there is a new technology that allows for board in 1988.

rom the ontset. Moto-rola's founders, Mr Paul Galvin and his brother ting a telephone answering ting a telephone answering machine in your pocket," says Mr Galvin.

"One keeps seeking new ways to combine science and technology to create a new service for a carrier, or a new way to have a person communicate eome more convenient way." To support this, Motorole contiouee to inveet heavily in research and development spending: £3.2bn last

"Motorola is a high technology business; that is where our engineering competence drives the value," says Mr Galvin. "We learned early that it was better to start something than to attempt to wait until the market was well known and then compete. "We try to be first in innova-

tion - that gives us a significant edge." Although Motorola is now

probably best known for its wireless products, including the ubiquitous cellular telephone which accounts for about 60 per cent of the group'e sales, it has not always been that way. "For years we were known as a semiconductor company: we could never communicate to anybody that we were in the communications business," says Mr Galvin.

In fact, semiconductors, which account for 29 per cent of sales and have been growing et a compound annual rate of 23 per cent since 1991, remain a key part of the business. "Semicooductor technology is really one of the understanding core competences of the institution," says Mr Galvin. The group's semiconductor products, which are mostly sold to external customers, include integrated radio circuits, control circuits and computing cir-

cuitry. So where is Motorola concen trating its R&D investment today? "We continue to invest in what are called the derivative opportunities in all our known businesses," says Mr Gavin, who joined Motorola's

CO-WAY

In semiconductors, he says Motorola is always trying to augment basic process technology - to shrink geometries, lower power consumption and make smaller, cheaper products while seeking out new applications for products such as microcontrollers and memories in smart cards. For example, deploying an

airbag used to involve a device called a "mechanical accelerometer" which measures the rate of deceleration using a weight and a spring built into something the size of a fist. To replace it, Motorola has developed a microcontroller device the size of a fingernail. "You can go through all of

our businesses and create what we think are very interesting derivative kinds of opportuni-ties," says Mr Galvin. "We try to look for opportunities where the technology is changing ... where there are new opportunities, for example the move from complex instruction set computing (Cisc) to reduced instruction set computing (Risc) or the advent of hybrid fibre-coax cable."

🔿 imilarly, Motorola has Spositioned itself to play a part in the evolution of the information superhighway through the development of cable modems which emerged from a group of Motorola cellular engineers looking for an alternative - and perhaps less expensive - way to connect cellular base stations instead of running it across the telecoms network by leasing lines or using microwave links. In fact, cable - which pumps

data down standard cable television circuits at high speed - turned out not be an optimal solution but someone figured out that the technology could be used as e low-cost way to transmit multimedia-rich data such as interactive television, video-on-demand or Internet Web pages into homes. "It illustrates the way we keep our minds open to things," says Mr Galvin,

In order to help stimulate innovetion, Motorola holds annual technology meetings where business groups look at technologies 10 years ahead. "We literally lay out the road map of the technologies and where they will go," says Mr

1.8

Galvin. The process ends with are still many challenges but inventions of ways of assisting the creation of a master map. But Motorola also insists on a minority report or e non-consensus report.

It was at one of these meet-142,000 people across the globe, also invests heavily in training ings that the first idea for Iridium emerged. "A fellow stood and upgrading skills through up and said 'Please don't the Motorola University". chuckle but I believe I can take the cellular switches and the it, an institution is just a group of people that are joined base stations and float them in together by a set of ideas and low earth orbit satellites principles." be says. around the world and people will be able to make e cellular telephone-like call on every square metre of the earth other than the densly-populeted downtown areas because of the the customer and then, secondline-of-sight and communicaarily, for our shareholders, by tions issue." lowering costs. We work very hard et developing the skills to

"Everybody was totally surised and said it was impossible because no such thing had ever been done before, bnt within aboot 30 minutes we committed to what turns out to a multi-billion-dollar proj-

"We committed the first 10 view on the concept of convergence. "We think, based on our engineers to study it, and then experience, that there are so the next 10 because we sam if it ever worked it would be may different problem sets - or quite spectacular. So yon dno't bet the whole bank tha first so many different ways to evalnate what is an appropriate day, but you go off and study way to solve that unique conwhether or not it would be possumer or business's problem sible and we think it is."

lular system does not reach.

Mr Galvin emphasises that it is

a complementary service tar-

geted at business travellers or

diplomats or those with unique

remote business applications.

Because it will only accommo-

date 1.2m or 1.5m users worldwide, it can only really target

the top 1 per cent or so of

mobile communications cus-

However, Mr Galvin also notes that "If you give human

beings a chance to communi-

cate in some place they

thought they could not before,

they find very unique ways to justify and need that product

once it is made available."

- there will be many, many dif-Iridium is designed to enable ferent combinations of and/or mobile phone communications in places where the current cel-

virtual perfection."

we think these are the right

kinds of risks for us to take for

But Motorola, which employs

"When you get right down to

ne of those principles

is quality. "Quality is

really a way of serving

prevent the possibility for

process; it promotes reinven-

tion because we keep seeking

Mr Galvin also has e firm

"That in itself is a renewal

our shareholders."

I James Goodnight of SAS Institute -- Interview by Paul Laylor

R&D keeps software at the leading edge

Buckinghamshire.

responsiveness

SAS Institute has

managed to balance technical excellence with a pragmatic approach to

business and a caring approach to its 3,700 employees

nlike many of his contemporaries, Mr James Goodnight, co-founder and driving force belond SAS Institute, US-based software developer, generally keeps a

While software entrepreneurs such as Bill Gates of Microsoft and Larry Ellison of Oracle are rarely out of the limelight, Mr Goodnight, SAS Institute's president, prefers instead to write code in his office surrounded by part of

people in telecommunications. Therefore the concept of convergence, where everything comes down to one product which solves all problems, is an over-simplification.

"The nifty thing about people, and why markets are so wonderful, is that people are different, so they value things differently." For companies such as Motorola, that means plenty of business opportunities. The challenge, however, will continue to be spotting those opportunities ahead of the competition.

"My father gave a wonderful speech at the 50th anniversary of the American Electronics Association," says Mr Galvin. "His message really was that when our company was founded in 1928, my grandfather couldn't see the next 16 eurprises. Even when he started the business with battery eliminators be couldn't see the automotive entertainment radio as an industry; be couldn't see the portable two-way radio; he couldn't see the transistor; be couldn't see the computer; be couldn't see the satellite, e pager or e celln-

lar telephone is where you generate the reve-"None of those things he nues and the cash flow to could see. So we like to orieninvest in the next event.

tions are truly using our prodscrubbing and scheduling tools

ucts in client-server settings." are currently under develop-Despite its financial success, ment for release later this SAS Institute still likes to year. think of itself as a college

The second group, formed rather than a business, hence late last autumn, is the Busithe "Institute" in its title and ness Solutions department the gymnasium, rackets court which is targeting packaged and crècbe in the wooded solutions as well as continuing grounds of its campus-style to develop SAS Institute's headquarters. Its UK subsidother horizontal and vertical jary is housed in Wittingdon, e product offerings. SAS Business Solution for renovated mansion on a sub-

stantial estate near Marlow in Financial Consolidation and reporting, unveiled earlier this Since founding the company year, is designed to enhance 20 years ago, Mr Goodnight, a graduate, statistical computing decision-making by addressing the key IT and information expert and professor at nearby issues encountered by finance North Carolina State Univerdirectors. "Financial control is sity, has emphasised research one of the keys to competitive and development and customer advantage," says Mr Good-

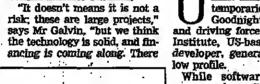
night. SAS Institute has tradition-ally led all the main software "Our large investment in R&D is what keeps our softvendors in terms of the perware on the leading edge, thus centage of its revenues devoted distinguishing SAS Institute to R&D. Last year, the comfrom its competitors," be says. pany spent more than \$174m,

"The message was that in tate ourselves in a general way while always being very practithe next era yon will have to cal, trying to serve today'e cuslook for the next 32 surprises because things will accelerate. tomers and markets, and that We like to think we are preparing ourselves to recognise the next possible surprise."



James Goodnight: We see our mers es our shareholders

(66 per cent of the installed base including 97 of the top Fortune 100 US companies), government agencies and universities. Every year the Institute distributes an annual survev - the SASware ballot - among its 29.000 customers. Responses to the ballot provide e foundation for future develment and product enha



This is intended to be a niche market, but if its eucceeds then ultimately it may create a low earth orbit, highvolume satellite business "It doesn't means it is not a

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"Wait honey, I'm almost done

Connector? It looks like a computer. Well, not in someone from AMP, because, as the world's premier connector company, our people have been stretching the concept of connectors. + Usually thought of as pieces of plastic and metal sitting between cables and circuit boards, connectors are being redefined. Were broadening their definition to include entire signal paths. For example, we see the one between a keyboard and the computer screen as one long connector. + This broader definition is the basis for our future direction. By building on our traditional strengths, we've added

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his collection of geological

But while neither Mr Goodnight, nor his company, which specialises in analytical software and information delivery tools which make managing a business easier, are household names, SAS Institute and its flagship product, SAS System, are widely acknowledged to be market leaders.

SAS System is an integrated suite of information delivery tools which include Executive Informetion Systems, data warehousing, client-eerver computing, database access, applications development, graphics, data analysis, report writing, quality improvement, project management, computer performance evaluation and decision support. Mr Goodnight and his team

of dedicated eoftware engineers, many of whom bave graduated from local universi-ties, have quietly built the privately-owned company based in Cary, North Carolina into the ninth-largest coftware group in the world. Last year, sales increased by 17 per cent to \$562.4m, marking the Institute'e 19th year of double-digit growth.

"The industry's trend towards data warehousing propelled us over the half-billion dollar mark," noted Mr Goodnight when he unveiled the latest results in February. "As the only vendor providing a complete back-end-to-front-end data warehousing solution, coupled with the industry'e leading business intelligence and applied analysis software for exploiting the warehouse, we anticipate strong revenue growth in this market through 1996 and beyond." With the launch of the

Orlando release of the SAS System late last year, the Institute continued to see more of its revenues come from the desktop. Last year, 61 per cent of the company's new software revenues was derived from personal computer and Unix soft-

"By pletform, the desktop continues to bring in a larger portion of new business for us," says Mr Goodnight, "however the mainframe is certainly not dead. Total revenue from PC software rose 36 per cent from 1994 to 1995, while Unix software revenue jumped 37 per cent, and mainframe revenue increased 13 per cent. This shows us that organisa

or 31 per cent of its revenues on R&D. The spending was boosted by the creation of two new R&D groups. The first, a data warehousing department, was formed in April last year to address the expanding infrastructure requirements for building and managing corporate-level data warehouses as well as departmental level "data marts". New eutomation

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Information

For details of forthcoming.

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Information Technology,

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"We are fortunate to be a privately held company and not required to listen to a group of shareholders who are only interested in quarterly profits. Instead, we see our customers as our 'shareholders' and our pledge to them is to continoously evolve our software to best meet their organisations' unique information delivery SAS Institute's blue-chip customers include big companies

ments. SAS Institute, like ite founder who still writes code, has managed to balance techni-cal excellence with a pragmatic approach to business and a caring approach to its nearly 3,700 employees. There are no current plans to float the company, although Mr Goodnight acknowledges that this may eventually be necessary - if only to minimise estate duties.

FT Review of Information Technology



Production editor: Philip Senders. Writers in this issue (volume two, number four) include: Paul Taylor, IT Correspondent; Louise Kahoe, Nuala Moran, Torn Foramski, Rod Newing, Philip Manchester, Michael Dempsey, John Kavanagh, Geoffrey Wheelwright, George Black, Marcia MacLeod, Malcolm Wheatley

icie Robert Hutchison and Steven Bernard trations: Andy Martin (cover) and John Springs Statistical research: Asifa Juma

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The next lause, June 5: This will include the following main themes.

Main focus: IT in sport and the Olympics. Plus: focue on IT in manufacturing. IT directions: business strategies for the network-centric computing era. (See also page 8 of this issue for details of a London symposium on June 7, on this theme). IT directions: ATM technology and fast switching. Software: risk menagement.

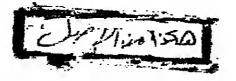
The July 3 issue: Focus on Networking IT Directions; Multimedia in entertainment and education. Software: Interriet software tools.

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FINANCIAL TIMES WEDNESDAY MAY I/THURSDAY MAY 21996

Mobile computing

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Mobile computers are helping companies to hone their competitive edge - By Paul Taylor

Toys' become business tools

The market for portable PCs continues to be one of the most dynamic segments of the global computer industry. World sales of mobile computers are forecast to more than double from \$30bn last year to nearly \$80bn by the end of the decade

munications.

tions facilities.

following disappointment with

first concration PDAs such as

early Apple Newtons which

lacked wireless communica-

However, notebook and smaller sub-notebook machines

are expected to continue to

account for the vast majority

of world mobile computing

market revenues. Portable

computer sales are growing

twice as fast as desktops in

some markets as companies

"Continuous price and per-

formance improvements make

the decisioo to substitute par

tables for desktops easler," says Frost & Sullivan, "Busi-

nesses in Japan commonly use

portables now as their primary

There is further evidence of

this trend. According to an

independent study conducted

for AST Computer last

autumn, 43 per cent of respon-

dents said they expected that

the notebook PC would replace

the desktop machine to some

extent and 31 per cent claimed

to have already seen some evi-

that the increased amount of

home working was a key factor

driving corporats portable PC

purchasing decisions - 82 per

cent said an increase in bome-

based working was sccelerat-

The sams study suggested

dence of this trend.

with port replicators.

computers."



Mobile computing: the portable PC provides an extra dimension to computing

he portable personal computer, and the note-book PC in particular, has established itself as a mainstream business tool helping individuals, companies and other organisations to maintain or extend their competitive edge. Used in conjunction with

fixed or wireless communications links, the portable PC provides an added dimension to computing, one which can help boost customer service, improve productivity and provide additional workforce flexibility

Reflecting this, the market for portable PCs continues to be one of the most dynamic segments of the global computer industry - fuelled by the growth of flexible working, particularly in the US and the demand for "feature-rich" notebook machines. "Companies are acquiring

portables in record numbers. indicating pent-up demand for the flexibility afforded hy being mobile," noted a recent study of the European market for portable PCs prepared by International Data Corporation for Dell Computer. World sales of mobile com-

puters will more than double from \$30bn last year to nearly \$80bn hy the end of the decade an 18 per cent compound annual growth rate, according to a recent study on pen, palmtop and notebook computers prepared by Frost & Sullivan, market research firm.

recognition software, pens are expected to evolve as an increasingly popular comple-mentary input method. Meanwhile, the paimtop market - in the US in particular - has been revived by the introduction of the HP 200LX machine which leatures two-way wireless com-The morriage of band-held PCs and wireless telephony - In oew devices from Nokia and Motorola as well as add-on enhancements to existing hand-held machines such as the Psion 3a and HP 100LX - is re-igniting interest in the pocket-sized computing market

ting in the fight against crime. Notes on an Apple Message Derbyshire polica use mobile Pad are sent from the scene to the police station via a PC card datacomms adapter which allows connection to a GSM cellphone

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top system as their primary machine. In contrast, in the US, the portable PC is the primary system half the time at large and medlum-sized companies, and less than 10 per cent of mobiles are shared. Optimising applications for

mobile computing can be as



Hand-held devices - By George Black

Smaller and cheaper

One of the main growth areas is in field systems. particularly delivery services

C mail hand heid devices Damong many businesses in the past comple of years, have spread widely helping many thousands of workers who had no previous experience of computers. Their usefulness has grown

as they have become smaller. lighter and more robust, able to store more data without losing it and to be used longer before betteries run ont. Their small screens have become easier to read and they are easier to operate.

Communication with head office by modem is easier and cheaper, so travelling workers do not lose time on the road. Most importantly, the price of the equipment has come down a lot.

The world market for han dhelds and portables for husiness use including palmtops but excluding laptup and larger machines) is valued at about fibn a year and growing at 15-20 per cent a year, estimates Husky Computers, a leading UK-based manufacturer.

Many types of worker who

husiness use may not be sealed, so there might be a risk of creating sparks. its drivers in six European motebook which cannot. countries with ACS Data

Software development is often the most difficult part of devices, making it easier for them to record accurately adopting handhelds. The softdetails of deliveries and collecware frequently has to be custom-written because the appliages cannot easily be tailored. Manufscturers often work closely with value-added re-

sales are made through VARs rather than direct sales teams. One of the main growth areas for handhelds is in field systems, particularly delivery services. Rugged handhelds with touch screens instead of

Before going on the road,

ns. BT uses Husky handheids for allocating work to technick used in vehicles carrying haz-ardous chemicals have to be engineers who maintain and

> Suppliers to shops, pubs and hotela use hand-held devices to take their orders nn the snot and transmit tham back to their base. This cuts the delivery time and can help to speed

ning devices for their stocktaking operations,

Mr Hugh Coverley, project Scanning of bar codes is pre-ferred to kayhoard input because it is much faster and less error-prone

Some devices have the added advantage of being able to operate at a distance. Some can be strapped to the back of the hand so that the hand can be used to pick things up withnut having to put the device

By capturing all the necessary information at a single swipe of a bar code, scanners save a lot of time. This also enables the data to be transmitted easily to headquarters



Air Products has equipped

"They were sceptical at first.

systems may be

appropriate for

BT prefers Husky handhelds

Financial services compa-

choose to give handheids to staff whose job is to collect

cash from customers' homes.

Service organisations of var-

lous kinds have adopted hand-

beld devices, especially for

Mobile field

many users

Del replace desktops with portales, often sold with docking AST stations or port replicators Taxa enabling them to plug into cor-ZDSC porate networks easily. Mr Guy Swarbrick, business Aces development manager in Epeo charge of mobile computing for Digita Dell in the UK, says that 70 per Hew cent of Dell's portables are sold Same

NEC

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simple as providing remote e-mail connections or as complex as developing enterprisewide sales force automation applications that rely on major back-end databases," says IDC,



"but almost any effort will be rewarded. Simply allowing users to work in new venues -at customers' sites, at home or on the road - can increase productivity and job satisfaction.

The corporats decision to invest in portable computing has been made easier over the past year by a number of significant developments. In particular, as Mr Murray McKerlie. Toshiba's product marketing manager in the UK,

erode the price premium.

more quickly than with previous microprocessor generations. Meanwhile almost all manufacturers have ahandoned the market for mono screens. For the moment, "passlve" STN (Super Twisted Nematic) screens still account for a majority of sales - Toshiha, the notebook market leader, says 55 per cent of its

machines are sold with STN screens. However the higher quality "active matrix" TFT (Thin Film Transistor) screens are gaining market share as greater manufacturing capacity and higher yields help

notes the performance gan

their portable counterparts has

cessor manufacturer, has tar-

geted the portable market for

growth, hringing out low-

power versions of its Pentium

been narrowed significantly.

tween desktop machines and

Intel, the leading micropro-

Larger colour screens and longer-life Lithium ion batteries - which provide considerably more power than earlier Nickel Hydride technology while weighing much less - are becoming the norm on top-end machines, Most of the leading notebook manufacturers have also recently introduced machines based around Intel's Pentium 133Mhz processors as they attempt to differentiate between entry-level and premium-priced machines.

Despite this, Dataquest, the market research firm, argues that it will be tough to differ-

microprocessors packaged for the portable market much use only a few business applications and who do not have to make presentations on their screens, may find it is not necessary to incur the expense of a laptop computer. They can manage better with something cheaper and lighter. Fur many applications

involving on the spot data cap-ture, a device which can literally be held to one hand may be preferable to a laptop or cml

tions of gas cylinders. manager, says: "We concluded that keypads were too difficult cations tend to be specialised and standard husiness packand we needed a touch-screen system. We did not want to have to teach the drivers to seilers (VARs) and users to type. produce the software. Most hat they took to it very quickly because they did not like the paperwork and this

keyboards can solve many of their problems.

van drivers collect their han-

The Husky FS/2, with rugs n and single-handed opera puts the power of MS-Dos computing into the most demanding work

repair customers' equipment certified as safe. Some hanon site. dhelds designed fur general

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up invoicing. Manufacturers, distributors and retailers have started nsing band-held rugged scan-

PC cards - the credit card- ing the take-up of notebook computing. Nevertheless, the IDC report sized devices which used to bs

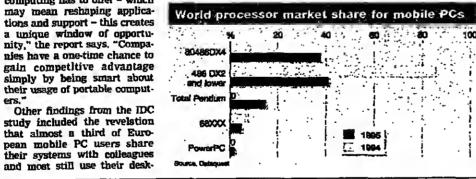
known as PCMCIA cards - are expected to increase their for Dell suggests that despite share of market revenues from the high adoption rate for por-4 per cent in 1995 to 9 per cent in 2001 as demand for "connectivity" in the form of modem devices, mobile data cards and network adapters continues to

Pen-based mobile computers, mostly used in vertical markets, and palmtop or hand-held machines such as Psion's Series 3 organisers or Hewlett portables is e-mail. Packard's LX series are expected to hold s steady 2 per cent of the market while portable may mean reshaping applicaprinters decline from their current 1 per cent market level. tions and support - this creates a unique window of opportu-"Pen technology is still fightnity," the report says. "Compaing for acceptance outside healthcare and insurance vertinies have a one-time chance to gain competitive advantage

cal markets, where it bas found strong growth for both pen tablets and PDAs (personal digital essistants)," say the authors of the Frost & Sullivan report.

While most analysts now accept that pen computing will not replace keyboards, despite their systems with coileagues and most still use their deskimprovements in bandwriting

table computing, many compa-nies are failing to get the most out of their machines. In Europe, for example, less than half the companies using portable PCs support remote communications, even just for e-mail. in the US, that percentage exceeds 80 per cent and the most common application for ok market leader, says 55 per cent of its machines "For those companies that do are sold with STN (Super Twisted Nematic) screens. But higher quality active matrix' TFT (Thin Film Transistor) screens are gaining market share take advantage of what mobile computing has to offer - which



entiate on processors alone. "Making things even tougher is the shift towards 'value' notebooks," says Dataquest.

"The feature sets are now 'good enough' on value prodncts and do not ask users to make sacrifices in terms of performance. We expect solid unit shipment growth this year, but differentiation - other than on price - will be tough."

Portable machines still sell at a marked - although reduced - premium to their desktop counterparts. Two years ago, a portable machine cost 2.8 times the price of a comparable desktop; now the premlum is down to 40 per

Neverthaless, strong sales and relatively healthy margins means that no serious PC manufacturer can afford to ignore the portable market. "Eighteen months ago, notebook PCs were perceived as executive toys," says Mr Swarbrick. Today, notehooks are perceived as genuine toola - the mobile road msp is much clearer to the industry than it was before "

dhelds loaded with the itinerary and delivery schedule. The got rid of most of it." machine sits in a cradle in the cab. During a visit, a receipt can be printed out and the cusother types of user - from couriers to airlines' in-flight dutytomer's signature un the touch-screen can be stored as free sales staff, in public proof of delivery. sathority building inspectors,

Because these machines nonally employ a standard Micrometer readers. soft DOS operating system, the information can later be quickly transferred to a central computer system.

A number of hig UK-based companies have adopted this technology in the past couple of years. BP Oil, for example, uses hand-held devices from neers and water readers also ACS Data in its trucks to the use Psion machines. UK and Germany.

for allocating work to its tech-Mr Graham Douglas, its nicians, although many of its technology development mansger, says the devices have staff use laptops. stmplified paperwork, saved nies, which usually give lapmoney and pleased both drivtops to their sales people for ers and customers. demonstration purposes, often

"It saves 400,000 delivery notes per year in the UK, so it is environmentally good as well as giving a substantial reduction in time spent on perwork," he says.

He nutes that bandhelds

for analysis, which helps the company to identify best-sell-These mobile field systems ers and worst-sellers and to may be appropriate for many

plan accordingly. Radio is becoming the preferred method of communication from the warehouse, telling the manager at once that the right order has been to gas, electricity and water picked, generating the paper-Britisb Gas's service engiwork for the transaction and neers carry Panasonic nutetriggering a re-order when

stock gets short. Hand-held scanners are book computers, but its meter readers and other visiting staff, with more limited and therefore increasingly seen as structured information an integral part of developing requirements, carry Psion hanelectronic commerce. dheids. Thames Water engi-

The use of hand-held devices may spread not only among service providers hnt also among their customers.

Retailers are assessing the effectiveness of hand-held selfcanning devices for nse by shoppers. Safeway supermarkets are already beavily committed to these devices as a way of reducing queueing time for customers. Other supermarkets are

watching Safeway's progress. The question now is whether that movement will gain critical mass.

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FINANCIAL TIMES WEDNESDAY MAY 1/THURSDAY MAY 2 1996

PC, the microprocessor, mem-

ory and other associated chips.

PC manufacturers often buy

motherboards instead of

designing their own, to get into

the fast-changing PC market

manufacture notebook mother-

boards. With a notebook moth-

one to enter for newcomers.

With an Intel notebook

motherboard, virtually any

Intel is discussing plans to

more quickly.

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E Notebaok PCs - By Tom Foremski

Primary drawbacks of using a notebook computer

Increasingly the first choice

is becoming more powerful, more reliable, lighter and better-suited for a wide variety of tasks

Totabooks are more expensive than desktop systems and have lagged behind in terms of the latest technology but as their prices fall and vendors bring out improved models, notebooks are increasingly being coosen instead of desktop systems.

IBM estimates that by the end of 1997, about 80 per cent of its PC sales to business customers will be notebook computera. And US market research firm Dataquest predicts that the mobile computer market in 1996 will grow by about 30 per cent - double the

This category of PC ¹⁵ per cent growth rate in 1995. Notebook computers rapresent the largest segment of the mobile compoter market and this category of PC is becoming more powerful, more reliable, lighter and better-suited for a wide variety of tasks with large hard drives, brighter colour displaya and add-on CD-Rom drives.

Notebook computers have tended to lag behind the latest microprocessors available for desktop systems because they require special versions that operate on 3.3 volts rather than 5 volts, to conserve battery life. But intel is trying to narrow the gap and release versions of its Pentium microprocessors for notebooks within aeveral months of the desktop versions becoming nvailable. Falling hard drive prices and

special low power drives are also more readily available. endowing notebook computers with plenty of data storage capacity. And leading notebook

and Digital Equipment have introduced modular notebook computers that allow peripherals such as CD-Rom drives to be easily added by users as they need them.

But the greatest boost behind the increased popularity of notebooks is changing husiness practices; many large organisations are changing the way they organise their offices. Some staff no longer have a permanent office desk and instead reserve time at a company office in a similar way that they might reserve a hotel room. Their files and personal effects are stored in moveable file cabinets and when they return from a road trip, from working at home or from working at a client's site, they book time at a desk in the bome office and simply plng their notebooks into the office local

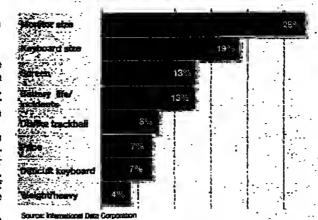
area network. "More and more people travel from office to office and

manufacturers such as Toshiba notebooks allow them to take everything they need with them," says Mr Bob Cushing, European marketing director at 3Com, which makes Lan cards for notebook computers. This way of working allows

companies to assign a computer to an individual rather than to a physical location. The computer becomes more of a personal computer than the desktop PC." According to Dataquest, the

leading manufacturers of mobile computers are: Toshiba, Compaq Computer, NEC, IBM, Apple Computer, Fujitsu and Dell Computer.

The key trends this year are for lighter notebooks such as Digital Equipment's HiNote Ultra II, which is among the thinnest and lightest, at about 41b. Dataquest notes that in 1996, most notebook computers will be built around powerful Pentium microprocessors compared with Intel 486 DX4 ors which formed micropr



the core of most notebooks shipped in 1995.

the progression to the Pentium architecture this year, we expect a major shift in product mix for the top vendors in the form of a major emphasis on value notebooks," said Mr Mike McGuire, senior industry analyst at Dataquest. These value notebooks will

be cheaper models without some of the high-end features of current models

manufacturers a chance to make some money and escape the razor-thin profit margins

company large or small, will be But producing a notebook computer is oot easy, and several PC companies bave faltered because of the increased development costs required and the manufacturing chal-Intel's efforts should help to

stresa key features such as make notebooks easier to manufacture - and also cheaper for weight As more staff choose buyers

notebooks instead of deskton Intel is already the largest PCs, organisations face new producer of motherboards for challenges in supporting those desktop systems. Motherboards users. hold the core electronics of a

Mobile computing

Notebook users tend to play around with the configuration of their systems more often. which leads to problems running some applications. They also tend to load non-standard software. And it is also more difficult for companies to make sure that their notebook users have the latest version of software applications because the computers are off site so much

of the time. Ensuring that staff are using the latest data files, such as price data, or sales figures, is another challenge that requires good synchronisation software tbat can automatically update notebook files.

But despite such challenges, the future for notebook able to offer a notebook comonter, leading to more competicomputers is assured, and it tion and lower prices for custakes the PC into a more tomers. However, Notebook flexible environment, matching manufacturers will still be able changing work styles and to differentiate their products with custom designs that

Docking stations and Lan cards - By Tom Foremski

New products on the way

For many notebook users, local area network cards are a good option when docking stations are not available

ocking stations and local area network (Lan) cards are the key bridging technologies that turn notebook computers into full featured computers, capable of rivalling the best desktop systems.

As corporations upgrade their systems, many employees are choosing notebook computers in combination with docking stations and Lan cards that allow them to access peripherals such as CD-Row drives and office Lans. New developments in docking stations and Lan cards have made these products more affordable and also improved them - and new products out later this year promise to make this category of computer products even bet-

Docking stations provide notebook users a way of plugging the notebook into a series of ports that give them access to peripherals such as full-sized keyboards, desktop monitors, Lan connections and storage devices such as hard drives and CD-Rom drives. One disadvantage of most docking stations has been that they do not allow what is called "bot docking" plugging a notebook computer toto a docking station while it is on and running an application.

Microsoft Windows 95 supports a feature that allows notebook users to plug into docking stations while the notebook is in a suspended mode but not all docks yet support this le ure.

docking station then restart the computer - a time-consuming process that most users would rather avoid. This situation is set to change with a new chip set developed by Intel called the 380 Dock Set which will allow notebook makers to create docking stations that will allow users to dock their notebooks while they are still on. The chip set will be available by the middle of this year and the first dock-ing stations based on the chips should be

ont by the end of this year. Other companies, such as PicoPower, are also offering hot docking technology. PicoPower's SmartDock products will be available later this year in a chip set offered to docking station manufacturers. With SmartDoc chips, the docking station antomatically detects if the notebook computer is on, and also allows users to disconnect their notebooks without danger of data loss. It will also reconfigure the system antomatically, depending on the status of the notebook.

Compaq Computer is also working on its own hat docking technology. However, these different hot docking technologies are incompatible, which means that users must be careful to use the right type of docking station to ensure compatibility with their notebooks.

Docking stations also vary in what features they offer and are available in a variety of forms from simple port replicators to more sophisticated versions that allow users to insert their notebooks into a docking station as if they were inserting a videocassette tane into a VCR, with the port connections made automatically.

For many notebook users, Lan cards are a good option when docking stations are not available. Based on the PCMCIA stan-The notebook user must make sure to connect to Lans, whether at their place of switch off the notebook, plug it into the work or when visiting clients.

Leading vendors of Lan cards include 3Com, Megahertz, Motorols, and Xircom. Because they are based on the PCMCIA standard, cards from different vendors should work with all notebook computers that have PC Card slots.

"One of our most popular products is our modem-Ethernet card which offers two functions yet just takes up one card slot." says Mr Bob Cushing, European marketing director at 3Com. "This allows users to plug into the office network and also work from bome."

Lan cards are also increasingly found in versions that operate on 3.8 volts, which helps to conserve power for notebook users and extend battery life. This makes the Lan cards more compatible with notebook compoters which operate on 3.3

Wireless Lan cards are still in development - but could further add to the value of notebook computers. With a wireless Lan card, no physical connection to a Lan through Lan cards or docking stations is necessary. Wireless Lan connections also mean that companies can move staff around an office more easily since they avoid the expense of running new cables. However, wireless Lan cards are a lot nore complicated than regular Lan cards which have a physical connection. For one, they are not as fast as an Ethernet card - with data transfer rates in the 600 kilobit per second range rather than the 10 megabits per second rate available to hard-wired Ethernet users. The wireless data rates are fine for e-mail but are frustrating for users trying to transfer large files or applications.

New wireless Lan technologies are being developed that could dramatically lata t may take several years for these technologies to be adapted for notebook users.

IBM and Toshiba are using a

technique called Digital Signal Processing (DSP) to combine many functions into a single adapter

PC technology are the result of attempts to make computing mobile. The demands for miniaturisation. low power consumption, improved battery technology, better screen technologies and small, high-capacity disk storage all stem from the need to make computers smaller and lighter.

The development of the PC card (formerly PCMCIA) is another example. The PC card takes the place of combersome adapter cards which are used to expand the capabilities of desktop computers - typically, to connect PCs to local area networks (Lans) or the telephone network. The PC card, which comes in the form of a plug-in" module about the size of a credit card, does the same job in a portable computer

Uotil quite recently. PC cards were built to carry out a singla function. But the features for new

computing platforms from

some time to extend Lan con-

cepts to the Wan and extend-

ing our reach to all platforms

"We have been working for

Windows up to IBM.

PC cards: "The manufacturers are shaping the direction by sticking to a design with only two PC card slots or ports. There is no sign that they will increase this." says Mr Joe Nash, export sales manager at PC card builder Portable Add-OBS.

"Usually one port is committed to an Ethernet Lan connection and the other to a modem. But if you can double up by putting both on the same PC card you can leave the user with other possibilities for using the other port," says Mr Nach.

Portable Add-one has recently launched a new range of PC cards which combine network connections, modem and fax features in a eingle plug-in card - leaving a spare slot in a portable computer for such uses as GSM and multimedia

GSM stands for General Systems for Mobile - the European-wide standard for cellular telepbone communica-tions - and is of growing importance in the mobile computing market.

While the PC card goes some way towards solving the prob-lems of the size and weight of adapter cards, another recent development promises even better power-to-weight ratios. Leading portable computer manufacturers IBM and Toshlba are using a technique

under the control of the com-

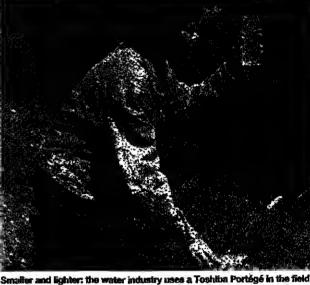
pany: "It is essential to keep

this in-house. You can out-

source the grunt work - the

lower level stuff. But you must

keep control of the higher level



ferent functions into a single adapter,

DSP has its origins in the esoteric world of engineering - especially for telemetry. epeech and acoustics processing. The complexities of unrayelling high-speed bit streams from measuring equipment or from speech recognition demand a special form of inpnt-output processing. DSP

provides this - both to speed

up translation of signals from

one form to another (digital-an-

alog and vice versa) and to

portable computers and see It

IBM's top Thinkpad portable

computers include a propri-

etary DSP product called Mwave. It bandles stereo-

phonic audio, data-fax modem

traffic and full telephony func-

tions, including a two-way,

full-duplex speakerphone and

telephone answering and voice

its Aptiva brand mass-market

desktop computers for multi-

media use.

ogy developments:

as a major change." be says.

top-end portables. But it is a good way to insure against technology developments. Yon can upgrade the DSP with software so, for example, you can change from a medium-speed modem to a high-speed modem by loading a new program from a floppy disk," be says.

and we are only using it in our

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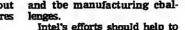
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He adds that DSP offers the possibility of exciting new uses for portable computers: "You can process any kind of digital signal by just writing a program. I know someone who is using it to build a radar device

E Portable modems and multifunction PC cards - By Philo Manchester **Expanding capabilities**

erboard from Intel, a computer manufacturer just needs to add a case, kayboard, display and some extra chips. Intel is likely to upset some Notebook computers are still of its microprocessor custommore expensive than desktop ers who would prefer to keep "As the market completes computers and they offer PC the notebook market a difficult

on desktop computers.



pushed manufacturers to design dual- and multi-function ing (DSP) to combine many dif-

called Digital Signal Process-

accommodate a wide range of different signal sources. A DSP microchip can be pro-

kinds of signals.

at much lower cost than traditional methods. There are all sorts of possibilities," he says. grammed to handle any kind of digital signal from a video or Mr Murray McKerlie, prodaudio stream to a communicauct marketing manager at tions session. More impor-Toshiba UK, is equally enthusitantly, it can be changed at

astic "DSP is definitely the start of any time to process different a trend and we would expect it to have an impact on sales of "DSP lets you dynamically modem cards in the oext couprogram tha chip to process things like speecb recognition, ple of years. You can put full video and modem use," says voice and data telephone fea-Mr Vincent Smith of IBM's pertures, network connections and far in a DSP. You don't sonal computer business. "We need a PC Card modem." be have incorporated DSP technology into our leading-edge says.

Last month, Tosbiba launched the first of what it expects to be a growing range of portable computers which feature DSP technology, "We have started by putting DSP into the top-range portables. But we fully intend to bring DSP right down the range soon." Mr McKerlie savs.

It is only a matter of time mail features. IBM is also before DSP will make current building the Mwave DSP into adapter card technology obsolete - something that third party card-builders must take account of.

Mr Smith says that DSP is They have to stay one step especially useful in portable ahead of the PC manufacturcomputers because it acts as a ers. We are building more funcbuffer against future technoltions into portables to reduce the aize, weight and the amount of silicon in our products." notes Mr McKerlie.

sive than the PC card option

VPN services are one of the fastestgrowing areas of networking. Many companies are turning to outside suppliers to provide

their network infrastructure here was a time when managing a company computer network was relatively simple. The network infrastructure - the cables. connections and software - were all within the

boundaries of a company'a offices and under the direct control of a company's technol-OCISIS.

But this is changing fast in a world where networks extend beyond the reach of individual company control. Networks in tha 1990s are less easy to define and new strategies are needed

if they are to be managed effectively. There are two increasingly

popular approaches to the expansion of networks. One is to buy in network services from a virtual private network (VPN) supplier, the other is to extend the reach of established local area network (Lan) technology to the wide area network (Wan) to create a "wide area Lan".

in both cases the aim is to provide a single view of the company network both from a usage and from a management perspective.

A recent report from market

works.

VPN services are one of the fastest-growing areas of networking and many companies are turning to outside suppliers to provide their network infrastructure. Using the analogy of the information superhighway, a VPN service is similar to a motorway trunk road; it gives companies a basic carrier service for their data net-

researcher Ovum forecasts, for example, that the US market for VPN services will grow from \$3.6bn in 1995 to \$5.5bn in 2005.

The market in Europe and Asia-Pacific is expected to grow even faster, from \$100m last year to \$7.9bn by 2005. Many companies, bowever. are looking at extending the concept of their internal Lans to the Wan so as to retain control over their networking resources.

"The distinction between the Lan and tha Wan is becoming more blurred - especially in the context of Internet and 'Intranet'," says Mr Graeme Allan, UK marketing manager at network management specialist Bay Networks.

"There is a growing trend towards managed services like VPN because of the frustration that companies have faced when building and managing their networks. We see the answer in what we call 'smart outsourcing," he says.

Mr Allan defines smart outsourcing as a way for companies to keep control of the important part of their network and leave the lower level network transport to the ser-

vice suppliers: "It is important that businesses do not throw the baby out with the bath water when before. they look at outsourcing network services. They must keep some knowledge and expertise in their own organisations. If you give away too much, costs

can escalate "If you don't give away enough then yon won't save any money," he explains.

According to researcher IDC, 115 "Traditionally, network man-Bay Networks took 51 per cent agement has concentrated on of the world market for "low lower level traffic movement end" Lan management software in 1995. Mr Allan says - unrelated to the application. But we see that real managethis lead has come from recogment of the network is oot posnising the importance of reachsible unless you can get an ing beyond the Lan and seeing application viaw," says Mr company networks as a whole. Bay Networks' Optivity net-Allan.

He adds that It is important work management software for this function to remain works on all of the leading

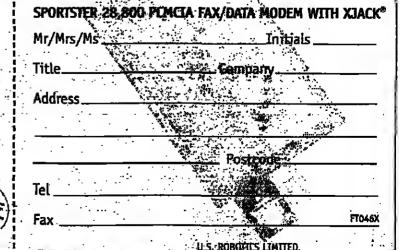
application view because you that companies use. Our recent are the only one who underacquisition of Armon gives us stands the business implicathe opportunity, for example, tions." to see remote network compo-Managing networks is never nents as part of the scheme. likely to be easy - especially More important, it gives us an application view - something against a background of rapthat has not been possible idly changing technology. As companies place increasing

In simple terms, the Armon emphasis on mobile workers and distributed applications, management of the network technology allowa network managers to see network trafand those who are attached to fic in terms of real business it is likely to cause more headapplications. It monitors the whole network and lets a comaches for network managers. pany adjust traffic flow accord-Bay Networks - along with

other network management ing to specific application software auppliers such as Cabletron and 3Com - are now able to provide the toots to help. But the final responsibil-Ity will, as ever, rest with individual companies. They must take the initiative and adopt a balanced approach which combines their knowledge of business priorities with the tech-

nology expertise of the Currently it is more expenspecialist

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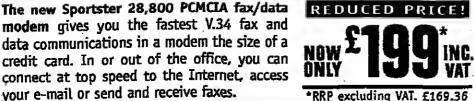
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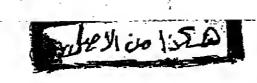
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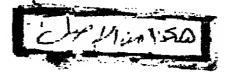


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Managing virtual networks and wide-area Lans - By Philip Marchester Fresh strategies are needed



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stress key features such a

weight As more staff those notebooks instead of design PCs. organisations face to challenges in supporting those more staff

Sers Noterous Users lend to play

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runtions some application. They zive tend to bad non-support software And works more difficult for companies to make sum for

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FINANCIAL TIMES WEDNESDAY MAY 1/THURSDAY MAY 2 1996

Mobile computing

E Gizmos and gadgets - By Michael Dempsey

H New technologies - By Tom Foremski

New arm of the IT industry Innovation is the key

the second secon

Systems that are self-contained and totally portable

have special appeal arian Oncology Systems is a \$1.1bn US corporation that sells radio therapy systems for the treatment of cancer and Mr Adrian Orchard, Varian's quality assurance and information systems manager for the UK. travels to the company's Palo Alto headquarters five or six

times a year. On every trip he is accompanied by what he calls his "little blue friend." This companion is a £149 Zip drive from lomega which allows users to store large amounts of data on a small device the size of a Walkman. The Zip drive slots into any PC

or portable with its own spe-cial disks cootaining up to 100 megahytes of data, as opposed to 1.44 megahytes on a typical 3.5-inch disk. Mr Orchard explains the

appeal of the Zip drive: "I present to people within the corporatioo and I have to carry around presentations that occupy a lot of disk space." He has found that the Zip

drive allows him to load whole libraries of clips and images and he doesn't have to worry about losing masses of data held on the hard driva of his laptop. The Zip drive and its disks will take all the data he needs and the product makes company data more secure. "I used to back up company-

sensitive information on the hard disk of a portable PC, but a PC can be stolen. Now I store all the files I'm going to use on two or three Zip disks and keep them in my pocket."

He believes this inexpensive product has made a big differeoce to the way he works, enabling him to alter sophisticated presentations on the move.

Presentation programs such as Microsoft'a Power Point have created their own problema, demanding more and more storage to offer the very facilities that users demand. Mr Orchard sums up the way one small item can resolve this problem: "Zip extenda the capability of my Notebook, particularly as modern software is so demanding on disk space."

than Im Zip drives, transform-ing tiself into a \$226m corpora-tion in the process. The very phrase "my little blue friend". which Mr Orchard uses to describe the product, points to

the pecullar appeal of IT systems that are self-contained and totally portable.

Users seem to derive intense satisfaction from practical equipment that can be carried on the person - and this is the dividing line between Personal Digital Assistants and laptop Psion paimtop computers

continue to rake in cash for this UK company and Psloo announced a 48 per cent rise in turnover to £90.5m tn 1995. LLoyds Bank is one financial institution that wants to use Pslon's success to attract high-flying customers, and the bank has produced an elec-

tronic chequebook package for Psion paintops. Presently on test in the UK, the package allows customers to download a payment order to their bank vla a modem.

With 1,800 branches and 7m customers, Lloyds describes this experiosent as just one method of delivering services." But a spokeswoman admits that banks have noticed a gap in the market for truly orobile services. "We're looking at ways to access banks from hotels or trains."

A 13m High Performance Radio Local Area Network, or Hiperlan, project funded by the EC has recently concluded that traditional computer networks can be replaced with an approach dedicated to the executive on the move. The scheme involved industrial partners such as French perospace glant

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Iomega has shipped more Lloyds Bank has produced an electronic chequebook package for Pelon paintops

Dassault and academic co utors such as the UK's Bradford University. Radio links between PCs are

already commercially available, but Stephen Barton, Bradford's professor of signal mation processing, says Hiperlan has proved the feasibility of a more exciting development. "We have built a demonstrator for ad hoc networking. This means lapton users meeting in an airport lounge and networklog without any wired connec-

Prof Bartoo believes that a plug-in card with a 4cm exter sion acting as an aerial will soon allow business users to conduct group work sessions on laptops in any environment. The demand for serious computing power on the move is unabated. Xyratex, a £280m UK management huy-out from

IBM, has just launched Maxit - a portable drive which retails for £299 and contains 540mb of data, the equivalent of one PC stuffed to the gills with infornotebooks can be

The rise of the Internet has spurred Xyratex to bring this device to market. Well-travciled users loading huge chunks of graphics and text from the burgeoning number of Web sites guarantee Maxit a ready market.

"It is toteal for Net surfers that waot to take a load of stuff off the loternet," Xyratex explains. Maxit is designed to be compatible with Apple graphies workstations, and Xyratex reckons the radicallyarieoted staff who drive the machines will be proud to wave a brightly-coloured drive about at arport security.

The raft of storage products fits the pockets and needs of ao emerging user-class. Mr Paddy Holahan is president of the Irish software house East Coast Development which produces Winlynx Laprup Backup (WLB), a £100 computer program written to allow Zin and Maxit users to hlast data onto their cherished gadget instantly.

Mr Holahan underlines the message that well-travelled computer-literate executives need a new level of security; The laptop market is growing extremely fast, maoy people use a portable PC as their primary machine and need security to match that." The power offered by physically attractive products allied to the coovenience of software such as WLB is creating a new arm of the IT industry.

Tatwaoese maoufacturer Plustek has latched onto the demand for advanced equipment that fits into a briefcase. Its £99 Pagereader is the size of a pencil case and can be plugged onto a PC to permit document scanning on the spot.

Pagereader appeals to the presentatioo-conscious husiness traveller who discovers a printed image and needs to insert this into his material instantly. Plustek is only 10 years old, but it has joined the ranks of companies making good money out of a market which is emerging from a marriage of physical oeed and pop ular aesthetics.

With more power squeezed out of batteries,

lighter, smaller and use faster

microprocessors - which typically use more power

N technologies are emerging that help to ew battery and screen lower the price of notehook computers and extend battery life - to offer users louger sors - which typically use working time.

Battery life has always been a key focus of ootebook manufacturers and a key limiting factor in the design and weight of ootebooks. Early notebook computers had just two hours of operating time between recharges, but the latest battery technologies and special power-saving features have extended the operating life of most notebooks to four hours and more.

Battery technology has always been the weak link in notebook computers. While notebook microprocessors. memory chips and hard drives have grown more powerful every year, battery technology has changed more slowly. This has forced notebook manufacturers to focus on ways of saving hattery power by nsing chips operating oo 3.3 volts instead of 5 volts; using power management applications that selectively shat down or idle notebook functions such as the hard drive; aod reducing microprocessor speed for simple tasks.

Companies such as Duracell, for example, have huilt smart batteries - rechargeable batteries with chips inside them to help more accurately gauge how much power is left.

Earlier software-hased power gauges were inaccurate, requiring a 20 per cent margin of safety so that users could save files before the power gave out completely. This was because monitoring how much hattery nower was available depended on the battery's chemistry, its age, temperature and other factors difficult

shapes. Notebook designers Smart battery technology can tailor lithium polymer bat-

gives a more accurate figure of power available, freeing np teries to the design of the computer rather than the other much of the 20 per cent of the way around - and make better use of unemployed space in a power that remained unused. Smart batteries also mooltor ootebook the recharging process, mak-ing sure that the battery is

correctly charged, charged to

full capacity and helping to

ing a battery could leave 10

per cent of its capacity

uncharged, further limiting

battery life. With more power

soucezed out of batteries, note

books can be lighter, smaller

and use faster mlcroproces-

Changes in hattery chemis-

try are also important. Nickel-

cadminm (NiCd), and nickel-

metal-hydride (NiMH) bat-

teries are gradoally being

replaced by llthium-ion (Ll-

ion) batteries which offer 2.75

times more energy per unit

weight compared with NiCd

batteries. But supplies of Li-

ion hatterles are limited

because there are few mann-

Ll-ion batteries are more

expensive and can also he

tricky to use. Apple Computer

last year found some problems

in its PowerBooks using Sooy

Li-lon batterles which had a

fault that caused some units to

hurst into flames. Li-ion bat-

teries are also more sensitive

be damaged by overcharging.

Zloc-air batteries are

another technology that offers

beeo limited because of their

can carry with them sepa-

rately and plug in as needed.

portable computer for as

can be formed into a variety of

long as 12 hours,

be a problem.

more power.

facturers.

Previous methods of rech

Several companies are also working on manganese-oxide zinc and oickel-zinc batteries. hnt so far these have shown extend the oumber of times the battery can be recharged. important disadvantages In terms of limited charge-dis charge cycles and slow recharging. In terms of notebook dis-

plays, the kcy techoology focus has been not in the dis-plays themselves hot to manufacturing the screens. Creating a liquid crystal display is similar to producing a chip and requires the same attention to cleaolioess aod accuracy except that the LCD display is much higger than a chip. Manufacturers have to accurately place transistors behind each pixel: multiple transistors in the case of colour displays. Each transistor must be connected to display control cir-

cuitry. A typical LCD display has 640 by 480 pixel resolution, or 307.200 pixels. Creating a flawless display is very difficult which is why a typical ootebook display may have a dozen or more dead plxels without being noticeable. Even with such a margin of error, the oumber of unusabla LCDs produced has been low.

However, improved manoto recharging and can easily facturing techniques have greatly improved yields, resulting in lower manufacturing costs and lower prices. loog life, but thetr use has And as Sooth Koreao- and Taiwan-based manufacturers higger volume and weight. have emerged to challenge the However, they are useful as secondary batteries that users domioance of the Japanese LCD prodocers, the combination of competition and improved yields has led to They are capable of powering much lower prices for notebook compoters. The ideal LCD display for

plays can be manufactured in

htg numbers and at a price

affordable for notebook use.

Replaciog NiCd batterles notebooks, would be one that mimics the high resolution of also has important environmeotal beoefits since cadmium a paper document. Such a disis a toxic sobstance and the play would need almost 7m disposal of NiCd batteries can pixels and Xerox substdiary Dpix says It has developed Yet another battery technolsuch a display. However, DpiX is prodocing the display in ogy that is still in its early small quantities for custom applications such as displays stages of development hot that shows promise, is lithium polymer. This plastic-like batin military aircraft and It will tery material is flexible and be several years before the dis-

FT - I T

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is a client/server network that sends sales data throughout the Sega empire instantly

> and the ability to add more power at a moment's notice.





He was also the first at Sega to see that AS/400 Advanced Series could do all this with lower administrative costs than other platforms.

B hen your business grouts from zero pounds to seven handred and fifty million pounds in five years, choosing a dient/server system that can keep up with the graath is pretty important. Which is what Bill Dourns of Segn has found with AS/100 kleanced Series.

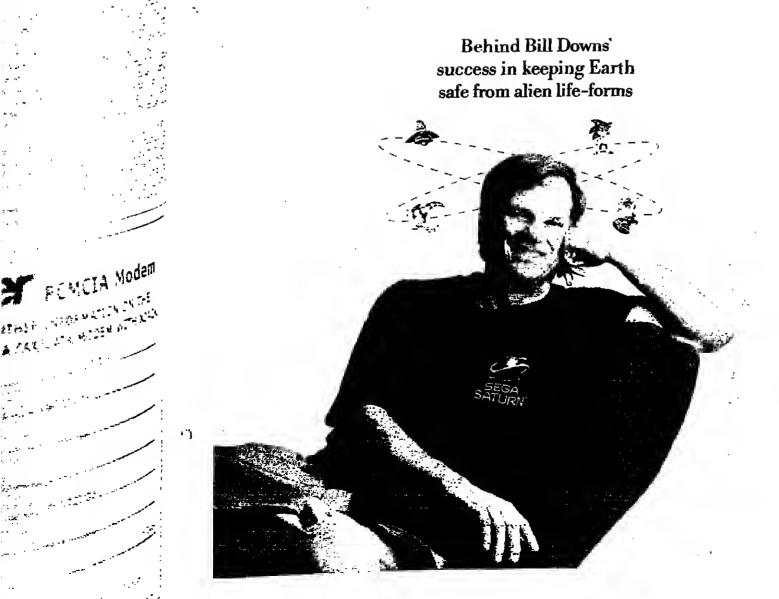
The five years, we probably would have had two or three different business systems if we had started with something that didu't scale as casily as AS: 100," says Bill, "None of us had the idea we would grav as fast as we did."

Bill has his AS/100 Advanced Series running the entire business. He's using it to process orders mid schedule delivery to 20.000 retail stores nvertight. He lus his compray's PCs, Apple Macs and Silicon Graphics workstmions ruaning off it. And his AS/400 Advanced Series dues all this with a technology budget of less than two-tenths of one per cent of revenue, and u ìth miniual suyg-ort staff.

If you'd like to see hour you can mennage business growth at lower cost with AS/400 Advanced Series, call your local IBM dealer. Or visit our home page at http://www.os400.ibm.com



Solutions for a small planet



FINANCIAL TIMES WEDNESDAY MAY 1/THURSDAY MAY 2 1996

Mobile computing



Times Scuare. New York, after a blizzard in January virtually shut down the city

Wireless mobile data services - By Philip Manchester

Wintery window of opportunity

I Remote access and communications software - By Geoffrey Wheelwright

Symantec saw a great chance to seed many more copies into the East Coast corporate world

Winter hit the East Coast of the US with a vengeance last January, and tbousands of people were trapped at home, unable to get to work, personal computer utility software maker Symantec spotted an opportunity.

The opportunity was to promote the company's remote access communications software - which could allow snowbound workers to get to work without leaving home.

So Symantec's Dehrina Group announced "Operation Snow Storm", a so-called "relief effort" to make 500 copies of its popular pcANYWHERE for Windows remote computing software available to corporations free of charge (it normally sells for about \$129) to

गावा जिल्ह्या व्हेन् ५२ जिल्ह्या व्हेन्द्र स्टब्स्

assist workers unable to reach their offices. Although Symantec claims more than 2m active users for the prodoct, the company saw a great chance to seed many more copies - along with a compelling reason for them - into the East Coast corporate world. The pcANYWHERE for Win-

dows Remote Control product is supposed to allow users to work from home, using their home PC to access the office. It requires a PC equipped with either Microsoft's Windows 3.1 or Windows 95. With the excessive amounts

of snow we have experienced, it is becoming increasingly difficult to get to the office. This product enables workers to stay at home and work as if thay were sitting at their desk," said Mr Christopher Calisi, general manager of the Communicationa Business Unit, at the time of the snow storm.

"We are very concerned with the risks individuals are facing this winter, in light of the haz-

ards of travel under such

extreme conditions." The software allows employees to dial into their office PC. Once connected, users can log into the network, access documents and remotely operate both Dos and Windows-based applications. Symantec claims that pcANYWHERE further increases productlyity by enabling users to remotely access devices on their PCs and networks, such as printers and CD-Roms. "This enables people to remain productive from the comfort and safety of their own home," added Mr Calisi.

Meanwhile, rival Stac Elec-Out'a design allows It to detect screen changes in real time tronics is hitching its star to and transmit them to the the expected success of Microsoft's nocoming release of remote viewer as they occur. Microsoft Windows NT 4.0 with Consequently, the image on the announcement that it will the ReachOut viewer screen stays aynchronised with the user's keyboard and mouse release a new version of Reach-Ont, its remote access software, following the shipment actions. of the new operating system later this year. eoftware saves up screen

changes and sends them at intervals, causing the viewer "As more and more corporate users migrate to Windows NT. Stac plans to meet their screen to lag behind what the user is doing. demands by developing Reach-

Out with a superior design that will take advantage of the 32bit architecture," said Mr John Bromhead, vice-president of marketing for Stac. "ReachOut will deliver the fastest, most reliable performance under Windows NT 4.0." The company ssys Reach-

The image on

the viewer

screen stays

synchronised

Stac claims that alternative

until half a sentence is typed before they get any feedback." claimed Mr Brombead. "Reach-Ont's architecture provides a much faster response time for the user." However, all providers of

ReachOut users see each

character as they are typing,

rather than having to wait

remote access software may find themselves losing market share to Microsoft Windows 95 itself-which includes built-in remote access capabilities. in addition to the ability to dial in to Windows NTs RAS (Remote Access Server), Windows \$5 supports dial-in to Novell Net-Ware networks running Net-Ware Connect; dial-in to another Windows 95 machine using the Windows 95 built-in single-line remote network server, dial-in to remote access server products such as those from Shiva Corporation and others; simultaneous support of the NetBEUI, IPX, and TCP-IP network communications protocols and dial-in con-

nection using the popular PPP

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standard.

Mobile workforce guarantees more growth

Many companies are looking for less expensive alternatives to the

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VI

6 FT - 1

advanced digital network services

f there were such a thing as the "ether", then it would be overflowing by now. The ancient idea thet the world was surrounded by a mythical substance called the ether is, of course, as plausible as a flat earth. But if it did exist, the ether would be in short supply. It would be fall of radio waves, TV signals and microwaves,

An ever-growing volume of communications now takes place witbont "wires" and there are signs that the trend will continue. An increasingly mobile workforce and a demand for wireless communications services guarantees continued growth. There are several different

cations services - ranging from mobile cellular telephones based on expensive digital radio networks to lowcost, data-only services based on established analogue systems. While the advanced ligital network services generally attract more attention, cost is an important factor and this is leading many companies to look for less expensive alternatives. "We can set up a base station for about £25,000, which keeps our costs down and lets us offer fixed rate subscriptions to our customers," says Mr Richard Harris, managing

markets for wireless communi-

director of UK services supplier Cognito. "Our competi-tors need about £100,000 to set up a base station and a fullfunction cellular telephone network costs about twice

Cognito, set up as privatelyfinanced management acquid. tion from TI Group in 1992, specialises in data-only wire-

less services using a proprietary digital networking technology aimed at field service engineering operations. Customers include Rank Xerox and Philips Medical Systems. "We charge a fixed rate per

unit of £50 a month, which means the customers know exactly what their monthly costs will be. We can also link to other networks such as Orange and Cellnet if the cusomer wants the facility," Mr Harris explains. Typically, users of the Cog-

nito service buy what Mr Harris calls an integrated solntion. Cognito provides the radio network - covering 85 per cent of the UK - and the mobile terminal. The customer provides the application

We have experience staff who can integrate the radio system with existing applications. This means a field englneer can receive details of work to be done through the mobile terminal and can notify

central control when the job is include TNT Express, Boots complete. Engineers can also order spare parts through the terminal," Mr Harris says. The main advantage of this

approach, he says is that it removes the need to keep a large number of staff at the company base, making and receiving telephone calls

again reducing costs. There are other advantages: Much of this sort of work involves transposition of data. call from a customer is taken over the telephone and the despatcher phones the engineer who writes down the details. On completion of the job, the engineer then notifies the central control by phone. "But with mobile data services, the data need only be entered once when the customer makes the original

call," says Mr Harris. National Band Three (NBS), another UK services supplier, takes a similar approach - but uses mature analogue radio -networking. NB3's customers

ADDRESSED TO:

IT BUSINESS

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USERS

VENUE:

DATES:

1996.

Nicholas Negroponte

Institute of Technology

"Being Digital". Founder and Director of

José Luis Solla

Lucio Stanca

Middle East & Africa

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Osairman & CEO, NGR Europe,

Chairman & CEO, IBM Burope,

Author of the book

the Massachusetts

Media Lab.

JUNE 3,4,5

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BILBAO (Spain).

21

and the British Waterways Board. "Mobile communications is about improving productivity and customer service. If you can despatch jobs through a wireless data service, yon can cut costs and improve service," says Mr

By using analogue radio technology, NB3 can offer voice services alongside the data services

Nigel Rodliffe, marketing manager at NB3.

NB3, like Cognito, covers most of the UK. But by using analogue radio technology, it can offer voice services alongside the data services: "We have developed a way of integrating voice and data and can keep costs down for our customers," says Mr Rodliffe. NB3 charges a fixed tariff of 263 a month for each subscriber. An initial set-up cost of £199 covers the radio termiand NB3 also offers a speto the way an organisation works. This means that we can link up with other computer applications the customer might have - for job despatch, fuel management and global positioning systems for vehicle location applications, for example. And if they have a **Microsoft ODBC** application, we can link to that as well," says Mr Rodliffe.

He adds that the analogue radio technology, while not necessarily the most advanced, is reliable and robust: "We are not ground breaking in terms of technology. But we are working on making the idea of plug-and-play low-cost radio communications a reality. In our target market, speed is not essential and our technology is very cost effective."

Mr Rodliffe adds, however, that NB3 has plans to introduce digital networking in the near future.

Cognito and NB3 both face significant competition from high-profile suppliers such as Cellnet, Vodaphone and Orange as the demand for wireless communications grows. They remain confident, however, that their pragmatic approach assures them of a healthy market for some time to come. Mr Harris notes, for @ © © © © © © © 888888 9988 3996 19 A 69



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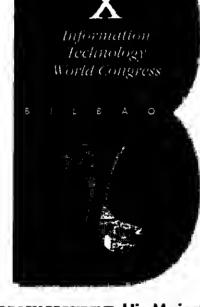
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INFORMATION SOCIETY: ON THE THRESHOLD OF THE NEW MILLENNIUM

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TECHNOLOGICAL CONVERGENCE AS VIEWED BY ITS LEADING EXPONENTS zo Dami Chairman, Digital Europ **Robert Guillaumot** Chairman & CEO, Infon Günter R. Koch General Director, Eurof Software Institute (ESI)

José Luis Larrea President, Iberni Robert Laurence Chairman & CEO. Novadm

Takesi Maruyama Excades Vice President, Pujitsu Ltd.

Genry Monianty Chairman & CEO, Telstra Rosemary O'Mahony Managing Partner, Anderser Peter Pagé Vice Chairm Ntodor Peter Sch

Mike Zismon

OTHER TOPICS TO BE DISCUSSED

The Information Society: Infrastructures, Internet, Multimedia, Interactive Video.

IT Products and Services in the World Market: Marketing Strategies, Outsourcing,

Software: Quality, Production Paradigms, The Global Software Enterprise, Client/Server System

Management and Business: Innovation, Global Partnerships, The Milleonium Bug, Info Technology in Financial Services.

N.B. A programme is available detailing the Congress contents in full.

ns: Congress Secretariat • Feria Internacional de Bilbao • P.O. Box 468 E48080 BILBAO (SPAIN) + Tet 34-4-427 75 21 - Fox: 34-4 - 427 65 57 + ction on Internet at: http://www.itcongress.sedisi.as = &mail: itcongress@

cial customised Psion palmtop computer for data processing at a cost of £699. "Our aim is to combine technologies that can be adapted to £6m in 1995-96.

M Data cards and GSM - By Rod Newing

on target for 50 per cent revenne growth this year. He expects annual turnover to increase from £4.2m in 1994-95 NB3 offers a customised Psion paintop for data processing

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Data unleashes the power

Data services have only been available for 12 months but they could become an essential business tool

The handset looks and feels like a telephone. , but it is really a fourplatform terminal encompass ing voice, data, fax and short messages," says Mr Simon Farr, product manager for mobile data products at Mercury Communications. "Data unleashes the power of the digital networks, so there is no reason not to be a member of the data community.

A cellular data card fits into the PCMCIA slot on a personal computer. It has a short lead which connects it to a cellular telephone handset to provide wire-free data communications from a mobile computer. A data card performs a similar function to a traditional modem, allowing the business traveller to send and receive electronic mail and faxes, connect to his or ber corporate network, use public servers and databases and access all the resources of the Internet. Mobile computer users can do this wherever and whenever they want to, free of telephone sockets. Because hotel telephone surcharges are so high, the mobile is often a cheaper alternative to using telephone sockets in a hotel room - and solves the problem of incom-

patible modern leads. Adoption of cellular data services is likely to be speeded up by the availability of new lightweight computer terminals for executives who do not want to have to carry a bulky notebook computer about just to keep in touch with their e-mail. The arrival of the mythical

mass market personal digital assistant is still awaited, but in the meantime Hewlett Packard has announced the MP OmniGo 700LX Communicator 200LX paimtop PC with a could generate more call time. Nokia data card, It is a benefit to the user to get The Psion Series 3a will connect through a special combined battery and data card attached to the handset to give short messages, and e-mail is coming shortly. In future, an infra-red connection will replace the cable and allow the

data card to be carried in the handset, allowing lower voltages to be used in hand-held computers. Nokia has approached the

problem from the opposite direction, by announcing its 9000 Communicator, which adds a personal organiser to a handset. The casing opens out to reveal a small screen and

GSM, used extensively in western Europe, is spreading to other parts of the world

keyboard. Very importantly, both the 9000 Communicator and OmniGo 700LX will link to a PC to allow users to transfer their data.

"Products like the Nokia 9000 system and exported the techwill take us into a whole new nology, but they have opened world of mobile communicaup their frequency to any digital technology," explains Mr tions," says Mr Nick French, PA Consulting's global head of Martin Gamer, managing conmobile communications. "It suitant for mobile communicameans that as long as I am in a tions at Ovum, the research GSM coverage area, I can comanalysts. "Standards give econmunicate data from the phone omies of scale for handsets and without taking a PC. We will network equipmant, so the see more examples of this type manufacturers are bappy to of product to support data serinvest. Europe has learned the

"From the service providers" GSM, just as the US is unlearnperspective," he continues, ing its lesson by creating "they should stop providing uncertainty for manufacturhuge subsidies to the man in ers." Data services provided by the street for his wife to make GSM systems can offer high the occasional telephone call while shopping. Instead, they performance with exceptionshould subsidise the costs of ally few errors, but only et these appliances and their rates up to 9,600 bits per secassociated data services. The ond. Higher rates are available Plus. This Integrates the HP usage is much greater and they with compression and slow-

scan TV has been demonstrated over GSM. This rate. which compares with the data remotely to increase productivity, the operator makes 28,800 , rate of the latest more money, and everybody modems, will be noticeahly wins." slower than users have come

implemented which are not

In an increasingly global

business environment, this

means that the data service

may not yet be available in

important areas to which the

user travels. Roaming agree-

ments only work between

systems using the same stan-

dard, so the solution is that manufacturers will produce

terminals with multiple nodes

built in, capable of supporting

"The US imposed an anal-

ogue standard, built a good

esson and is standardising on

each of the main systems.

compatible with GSM.

Global System for Mobile to expect from their home and Communications ("GSM") is an office connections. international digital cellular The constraint is the netradio standard which is used work, not the data card, so the extensively in western Europe solution to this will be to use and is spreading to other parts several connections at the of the world, being adopted by same time, known as "multissystems in more than 100 countries in total. However, the US and Japan are using aeveral different standards and even their GSM systems are not always implemented in compatible ways. In Europe, PCN standards, such as Orange and Mercury One-2-One, are being

lot." a many as seven connec-tions can be used and Nokia bas demonstrated data transfer at 28,800 using three connections. "The network providers are still two years away from offering this facility, but they will get there," says Mr Mark

> There is still a problem of where to get expert support for older

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Squires, manager of cellular data for Nokia, the world leader in data cards.

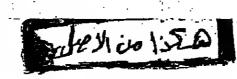
machines

"The networks are still polishing their data services, but they will get more aggressive for the business user," says Mr Squires,

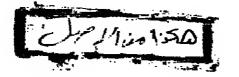
"Growth so far has been faster than expected, because Windows 95 'plug and play' has helped to move the technology from early adopters to the average executive user."

However, Mr Gamer warns that there is still a problem of where to get expert support for older machines, because cellular retailers have little computer expertise.

Data services have only been available for about 12 months and are still immature. Nevertheless, their use is spreading rapidly and with more attention to speed and international coverage, they have the potential to become an essential business tool for all



cutive Vice President and the Managing Board, Sieme CEO. Lotius Cándido Velázquez-Gazte Chairman & CEO, Telefónica Chairman & CEO, Software AG And other 60 internationa speake



FINANCIAL TIMES WEDNESDAY MAY I/THURSDAY MAY 2 1996

IT supply is o backbone of

are made in Taiwan. Acer, the

\$3bn PC maker founded by Mr

Stan Shih of Talwan is now the

eighth-largest computer brand

in the world, employing 25,000

staff at 50 sites around the

The Taiwanese government

problem first and ask approval

later." This would be risible

were the results not so demoo-

strable. Any office wall space not devoted to photographs

carries gushing letters of

thanks from the company's

600 corporate customers - 25

per cent of the Portune 600 at

Mr Duffield points oot that

be runs the company in this

way not because of some deep-seated belief in industrial

believes that It will produce

1987 to create client-server

time were both much riskier

Duffield apparently liked what

he had seen of Microsoft's Windows 1.0 and 2.0, and spot-

ted a growing niche in Windows-based client-server enter-

prise applications - "although I never expected it to grow

Perhaps understandably at

the time, his colleagues in his

previous company did not

share his vision, so he left to

Although the company now has a range of integrated

applications that includes

this big."

set up PeopleSoft.

PeopleSoft was founded iu

superior husiness results.

the latest count.

International perspectives

E Taiwan - By Michael Dempsey

IT is key to economic success

PC-maker Acer is the eighth-largest computer brand in the world, has developed to the stage employing 25,000 where it can weather the staff at 50 sites threat of war. around the globe

aiwan's blue chipweighted stock index posted its higgest oneday gain in two years at the begioning of April, triggered by news that Wall Street investment firm Morgan Stanley might be about to follow Dow Jon es and place Taiwan's index on its worldwide Indices.

The US – By Malcolm Wheatley

Superior results for democracy

globe

PeopleSoft, which markets a range of client-server enterprise applications, is listed

as one of the fastest-growing companies in the US

n the leafy California sub-urb of Pleasanton, a huslness park that was condemocracy, but because he structed in more prosperous times by downsizing telecommunications giant AT&T now has plenty of vacant space. Appropriately enough, a fair and buman resource manageproportion of this space now ment software - which at that uses the headquarters of the areas than they are now. Mr rapidly upsizing PeopleSoft

Inc. Listed by Fortune as one of the fastest growing companies in the US in 1994 and 1995, the nine-year-old company markets a range of client-server enterprise applications that is rapidly gaining it a big slice of the market. UK customers Include Abbey National, Christian Salvesen, KPMG Peat Marwick, UK accountants, and the Department of Transport.

PeopleSoft represents a per-sonal crusade by Mr Dave Duffield, its president and chief executive officer, to create the kind of corporate culture that

accounting, manufacturing and distribution functions. "human resource software was what I knew, so that was where we started," says Mr

The timing of the surge, is acutely aware that while IT coming just after menacing can provide a powerful eco-Chinese military manoeuvres nomic stimulus, it is a terrifiput Taiwan in the headlines, cally competitive sector. proves that Tajwan's economy Tom Lin, a 66-year-old for-mer air force engineering offi-

cer is now 23 years into his second career - promoting Taiwanese products as deputy secthis economic success. Taiwan now produces 80 per cent of the world's computer keyrotary-general of Cetra, the island's external trade council. Fresh from the rigours of boards. Half of all PC monitors Cebit, Hanover's notoriously wearisome IT fair, Mr Lin puts a humorous gloss on his chal-lenging role: "I'm a 'made in Taiwan' ambassador, hut l have to develop a message that Taiwan is not a shirtmaker." The phenomenal output of Taiwan's electronics sector and the rise to world prominence of Acer should have established that fact a long time ago. But Mr Lin knows that his home-land is coming to the market in the wake of Japan's success. Taiwan's dilemma is twofold. It supplies huge volumes of the IT industry's components, but the buried nature of items such as computer network eards means that few people know or care that 40 per ceot of these are made in Taiwan.

The second dilemma is quality. How can Mr Liu and his colleagues convince the outside world that their country is not a bargain basement site

OJITL NCR. All rights rese

match Japanese specifications? Mr i.in is frank about the way Taiwan cutered the IT market: through contract component mannfacture rather than innovation. "In the past, Taiwan was the king of originat equipment manufacture. But we learned a lot from this kind of work."

Now the imaginative edge is returning, claims Mr Lin, tn the world of the Asian

Tiger economics, Taiwan occu pies a position between Malaysia, with low labour costs, and Japan, where the brainpower needed to fuel an IT industry is more expensive to recruit. But Tajwan's mature innovators are flocking bome after lucrative careers in the US.

"Thirty years ago the hraindrain was to the US; our best people chased jobs in companies like IBM. Now these middle-aged engineers are coming hack to Talwan," says Mr Lin who christens this trend a "brain gain". He says 5,000 such IT professionals have recently returned to their place of hirth to boost the island's industry, typically setting up small high tech companies of their own.

Taiwan is fighting its downmarket image through a scheme intended to reward quality and innovation. The

furning out goods that do not National Award of Excellence grants manufacturers the right to use a national symbol of excellence on their goods. The Gold NAE certificate is worth £35,000 to winners: companies getting the silver award receive £16,000. These are hardly sums to set

corporate hearts beating, hut a lot of organisations qualify awards. In the most recent round, 216 companies won an award, out of a field of 600. Mr Lin is quick to point out

that some judges are drawn from beyond Taiwan. Recent products that caught the judging panel's eyes included an Acer notebook and a computer monse with function buttons on its sides. Cetra works its 700 employ-

ees hard. "We have 25 trade shows in Taiwan and we attend S0 all over the world," says Mr Lin. A high proportion of these are in the IT sector.

oly contracts and the NAE symbols, does all this effort pay off? Taiwan's Plustek has just launched the world's smallest page scanner, a 199 product the size of a one-litre juice pack called the Page Reader 800. Mr Lin is convinced that a flood of groundhreaking products are in the

"Wheo I joined Cetra, very



few people to Taiwan knew what international trade was.

nation's fledgling democracy. He compares the current debate about the Internet and

its uses with Taiwan's move towards its first presidential electioo. There are no restrictions on Web usage in Taipei. "You can send an e-mail to President Lee,"

It was this presidential election that provoked a show of force hy mainland China. But Mr Lee points out that many iarge Taiwanese companies maintain plants in China.

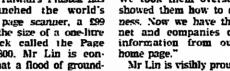
offer the very latest release of technology within the company's kit. The Taiwanese government noted the failure of Japan to follow bardware success with software developments and tar geted software as the island's next designated growth area. A small island accustomed to

world.

shrugging off hullish hehavjour from powerful neighbours clearly has a lot to offer the IT

paying off.

Beyond the component sup



We took them overseas and showed them how to do husiness. Now we have the internet and companies can get information from our own

Mr Lin is visibly proud of his

pipeline

We can help you get to know your customers better than anyone else



FT - |]

For Taiwanese IT specialists.

Japan remains the hig ques-

tion. In 1995, Taiwan had a

\$17hn trade deficit with Japan,

importing \$30hn worth of goods and exporting \$13hn of

Like any merchant adventur

ers, Mr Lin and his Cetra col-

league Mr Bret Lee travel with

a range of gadgets intended to impress overseas oudiences. A

pocket dictation machine that

exploits microchip technology

to dispense with a tape is th

work of Taiwan's Sidex. "We can improve technology

and apply that advance in a

way that is affordable in the

market," Mr Lin declares, brandishing the Sidex

machine. And his efforts are

In Taipei, First International

Computer is attempting to

emulate Acer's achievement, producing more than 100,000

desktop and notebook PCs a

month. FIC is looking at a

delivery channel that allows

central processing units to be installed in the country of

delivery so local ageots can

its own products.

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he feels hest suits software companies - if not the corporate world in general.

Mr Duffield, a 30-year veteran of the California software industry, vowed when setting up PeopleSoft that he would avoid all the mistakes that he had seen in other companies. "Too many companies have too many people that have lost sight of the mission," be says, recalling hitter internal battles and corporate politicking. "We didn't want fieldoms to get in the way of serving cus-

tomers. The PeopleSoft proposition to its prospective employees is simply stated. They are expected to work hard, be focused on their customers, and be prepared to embrace change - the latter because, in Mr Duffield's words, "things are going to be different. That's a certainty." In return, employees get an

environment in which "it's fun to work," and an assurance that everyonc around them will respect them and in turn be the sort of people that they can respect. "Nine-to-five people get

drummed ont. Bossy people get jumped on or drummed ont. People who play kissy face with the people above them and dump on the people helow them get drummed out," sums up Mr Duffield. "Happy and productive people are the essence of any successful business."

The company's annual report lists the name of every employee, and is illustrated with photographs of many of them - as are the walls of the office building.

PeopleSoft's employees are empowered, in Mr Duffield's for the first time, PeopleSoft's words, "to do whatever it takes to keep customers satisfied." Even if the ethos is not stated as such, the spirit of the organisation appears very much to he: "Sort ont the

The added importance given to human resource management within husiness generally since then has undoubt-

edly helped, and PeopleSoft's package has slavishly followed management trends such as "competence-based development", flexible benefits and flatter organisations.

An interesting facet of the business is the extent to which the company's software development is user-driven. Mr Duffield concedes that the years he spent on the road selling software have coloured his opinions regarding the imporance of customers' views in this area as well as in their expectations of service.

Every year, each corporat user is given a number of votes - known as PeopleDollars - according to the number of software licences they have. Companies such as AT&T, **Hewlett-Packard and Siemens** have standardised on People-Soft globally, and so have multiple licences.

Priorities for proposed enhancements are hased on the PeopleDollar votes that each enhancement receives. Customer support and field sales personnel have a similar voting arrangement, and the results are then ranked to construct the development pro-

gramme Mr Duffield professes to subscribe to a management theory that reckons that companies can focus on either product innovation, customer service or operational excellence - but that focusing on more than one of these at once is extremely difficult. PeopleSoft, he claims, manages to achieve the first two, but he has no delusions about the company's ability in the third area: financial controls apparently leave

him cold. "We're strictly seat-of-thepants," he says - perhaps unusually for the chief of a \$230m husiness. "We don't do the hudgeting and nickel-anddime stuff very well. I don't care about that stuff at all, hut if I hear that a customer has difficulties with our product, then I worry about that a lot."

One consequence has already become apparent. Despite a move to new premises, employee growth continues to outstrip available space: PeopleSoft is expanding faster than AT&T is contracting. So, one-person-one-office rule is to be broken with a move to cubicles to make better use of the available space. Characteristically, Mr Duffield is moving into the first one bimseif.

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FINANCIAL TIMES WEDNESDAY MAY 1/THURSDAY MAY 2 1996

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VIII

Outsourcing / People and skills / Digital cameras

IT octaourcing By Nuala Moran

Rumble of discontent from clients

The report found that one-third of organisations rated the problems of outsourcing as outweighing the benefits

A Consulting has picked up e rumble of discon-tent from customers in its third annual survey of outsourcing, due to be published later this month.

"Even some big companies are starting to say we are not getting the attention we expected," said Mr John Little, one of the report's euthors. "There is e limited amount of talent around and the explosive growth of outsourcing is spreading it more and more thinly across more and more contracts."

The report*, which surveyed ettitudes and experiences in France, Germany, Denmark, Hong Kong, Australia, New Zealand, the UK and the US, found that one-third of organisations rated the problems of outsourcing as outweighing the benefits. And while twothirds perceived more benefits than drawbacks, the survey concludes that only 5 per cent of the organisations are achieving the level of benefits which are potentially available.

More than 1,000 directors and senior managers were interviewed Part of the mismatch

between expectation and reality is caused by what Mr Little characterises as the "A Team-B Team syndrome", where the A team makes the sale and the B team does the work.

"The members of ths supplier team who do the work on designing the solution and promoting this to the customer generally move on once the contract is signed. The implementation team rarely have the same enthusiasm for new approaches, or expensive new skills, particularly where these carry any risk to tha supplier's financial performance," said Mr Little.

set up.

"While the sales team may (or may not) be acting in good John Little: There is a limited faith, they do not have the amount of talent around operational clout to enforce the

sold solution." By the same innovation and edded value. token senior management and they expect suppliers to come up with ideas on how to attention on tha customer side achieve this throughout the moves on once the contract is life of the contract. "Many of the interviewees

The root of the problem lies reported that one of the most with the nature of ootsourcing contracts which, in general, convincing arguments in the deal only with the delivery of outsourcing sales pitch was: services. "They fail to include We have better ways of doing things; we have the skills; we env definition of the relationship - in other words how the have the technology," said Mr customer and supplier will Little. The reality proved somework together to ensure that what different. "Even if the snpplier did the benefits are delivered."

Customers are looking for have the skills and technology

E Digital photography - By Geoffrey Waeelwight

Prices are dropping

The picture files can be transferred from the camera to a desktop computer for use in desktop publishing and image-editing

igital photography is snddenly becoming much more affordable. A few years ago, you would have had to pay as much as \$20,000 for the honour of using a digital camera, but prices for the most recently-released dig-Ital cameras are dropping rapidly - with a wide range of choice for less than \$1,000.

These new hand-held digital devices offer an easy way to get pictures into your compater without requiring the use of a scanner, an outside agent or any extra equipment

Enter the digital camera. resolution screen, connection These new devices allow users to shoot images directly and. store them on files within the camera. The files can be transferred to a desktop computer for use in desktop publishing and image-editing applications. One recent entrant to this

growing market is Japanese electronics giant Casio - which has launched two digital cameras in the past six months. The cheapest of these is the QV-10, e hand-held digital still camera that allows images to be viewed as they are shot, thanks to a high-resolution active matrix 1.8-mch LCD col-OUT SCREETL.

The images can be subsequently transferred to e personal computer using connection kits which will work with both Microsoft Windows and Apple Macintosh operating systems. Images can also be output to e video source such

ports for PCs-video devices, and large image memory area are all in keeping with Casio's philosophy of bringing affordable high-technology products to consumers." Casio says it also intends to market the QV-10 to vertical markets such as insurance and real-estate, in addition to the large PC and consumer markets.

Meanwhile, Apple Computer is still in the digital photogra-pby business following the leunch late last year of the QuickTake 150 - e hand-beld mera that looks like e cross between a pair of binoculars and a small spaceship. It weighs slightly less than 1lb and provides the ability to

store up to 32 "standard resolution" pictures or 16 of "high resolution". Once again, these image files

can be transferred to either Apple Macintosh or IBM-compatible computers running Microsoft Windows, then of the busine placed in publishing or imageediting packages. The camera also uses standard rechargable AA batteries, so users can buy and use ordinary AA batteries if they have not got time to recharge between uses staff. The camera holds its images in computer memory while the battery is changed so that users do not lose any pictures they have already taken. Some photojournalists and newspapers have already started using digital cameras in the field. Like newspaper reporters, the photojo are now able to send their work as computer files via over telephone "modems" lines.

Unlike the 1980s, the mid-1990s

move to outsourcing is not

about fashion or political driv-

ers. It is ebout a new way of

doing business," said Mr Little.

"There is unrelenting growth regardless of sector, and the

In the 1994-95 survey, 26 per

cent of respondents said they

would bring IT back in-house if

they could, or that they

wanted a divorce in order to

're-marry' e different supplier.

But when surveyed for the

1995-96 report, none of these companies had made such a

While PA Consulting's two

previous surveys showed that

cost-cutting was the main

motivation for outsourcing.

companies now say that activi-

ties which are not part of their

competitive positioning should be outsourced to suppliers who

are "the best of breed" in each

particular activity.

trend is universal."

change

are seeing determined efforts to establish standards and

bring order to the market

The recession and subsequent recovery are proving to be among the best things that could have happened in IT contract staffing, not only for the surviving agencies and contractors but also for IT managers desperate

to fill skills gaps. The 1980s and then the recession saw companies shifting emphasis increasingly from permanent to contract staff but at the same time brought in small agencies keen to make a fast buck. This tarnished the already less-than-perfect image

it did not have enough to go round all its customers, and only those who had the foresight to make this a contractual obligation or were too big to ignore, actually got what they were buying - and then sometimes with a struggle." But whatever the problems, there is clear evidence from the survey that outsourcing Outsourcing will continue to grow. "The

> More than 1,000 business leaders took part in a recent survey

fits as well." said Mr Little. When asked to select three out of 11 statements which gave the best description of their organisation's view of outsourcing, 50 per cent said: "We outsource when others can do it better", 35 per cent said: "We outsource to focus on our core business", and 32 per cent said: "We outsource to reduce our cost base." The bias to outsourcing for

tactical reasons is common to all the countries surveyed. One consequence of outsour

"Obviously, people are not cing for tactical reasons is that going to outsource if it costs there is a trend eway from them more, bot they have banding IT over to e single started to look for other benesupplier, towards using multi-

E People and skills: IT contract staffing - By John Kavanagh

Reputation had to change

____ to increase shareholde anything that is not core to Source: PA Consulting . ple suppliers with expertise in

- to reduce our cost base

...... to intorove productivity and

ecialist services we h pylded ourselves

activities that became too for us to manage

particular technologies. "There is a recognition that the supplier which is best et supporting PCs is not the best at managing wide area networks or corporate servers."

This shift has raised a different problem: how to get suppliers to co-operate to daliver a seamless service. While it was claimed that suppliers oversold their ebility to contract or partner with other suppliers, many interviewees had to ent admit ruefully that thay had not done their homework on establishing whether the mechanisms to do this were actually in place. "Two bottom lines inevitably means problems' was a common comment," said Mr Little.

setting up overarching agreements which stipulate how the various suppliers must work together. "If the suppliers don't agree, they can't join the party".

This in turn is leading to significant increases in two more sophisticated kinds of business relationship. The first is a consortium of suppliers working together to fulfil a contract, approach · · the other is the joint venture between the supplier the cli-

The survey found a common view." view." *International Strategic Sourc-ing Survey 1996. PA Consulting Group, 123 Buckingham Palace Road, London SW1W SSR. 0171

London

desktop computing

ting the same CV from differ-A European audience of ent agencies, an issue which directors and senior personnel has long upset contractors from the IT-user communitywill hear an impressive line-up because managers who receive two idantical CVs usually of speakers taking part in Interforum 96 in London on The Independent Computer Friday, June 7 when the theme

Contractors gronp's support will be "The fature of the includes encouraging its 350 desktop - business strategies members to use job agencies for the network-centric which belong to the federation. computing era".

Sir Peter Bonfield, chief executive of British Telecom and chairman of ICL, will deliver the opening keynote address. The closing address at the felevised event at the Queen Elizabeth II Conference Centre, Westminster, will be given by Mr Larry Ellison, chief executive and president of Oracle, the software apany.

Interforum 96 marks the Mr Mike Cullen, the group's chairman, says the service launch of an annual TT symposium by UniForum

in association with the

more than 1.200 members

address an international

TV stations worldwide.

head of IBM's Internet

Division. Mr Philin White

of Informix Software, Mr

vice-president of Silicon

Systems Group, Sun

Martin, editor of the

via the FT Web site.

Graphics, Mr Gene Barman

general manager of Deskton

Microsystems, and Mr Peter

FT. Speakers' views will also

be evailable on the Internet

For more details of the

event, contact Mr Philip

UniForum UK. 9-11 KBC

Flaxton. executive director.

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central government

communities.

Financial Times. UniForum is

e non-profit organisation with

spanning the vendor, user and

The one-day event will also

audience via the FT Television

Other speakers will include:

Mr Irving Wladawsky-Berger,

chief executive and president

Keith Todd, chief executive of

ICL, Mr Javaid Aziz, European

service which is evailable to



Julia Robertson: 'Agencies are ensuring that their staff are better trained'

view across countries and industry sectors thet to obtain the full benefits of outsourcing there should be a shift from outsourcing on a country-bycountry basis to global outsourcing To overcome such difficulties, the smart companies are

Views of outsourcing unce where others can do it bette to gain competitive advantag cause we are under politica - to get rid of internal problems

capacity will grow in line with demand," said Mr Little.

But he points out at the. moment there are very few suppliers capable of de and delivering service solu-tions on e consistent international basis.

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Even among these, many have grown through ecquisition, which is not a good guarantor of consistency of

-"The market for global outsourcing is currently too immature to deliver the levels of benefit which it should be possible to achieve through taking an organisation-wide

"This appears to be based on the expectation that supplier 730 9000

symposium on the future of

code says agencies must not. send a CV to employers with-out the applicant's permission. This prevents an employer get-

ther than what you get as a TV or VCR, using a video you buy the camera).

Traditionally, yon would have to either obtain prescanned photographic images on a CD-Rom (by paying someone else to have their film processed onto a Compact Disc using Kodak's PhotoCD system) or buy an image scanner to "photocopy" images into the computer for editing and

Both processes heve been time-consuming, expensive and frustrating - particularly for users who only need to add "work-a-day" photosimpla graphs to their insurance adjustment forms, real estate sheets, product catalogues and design mock-ups.

cable. Connection kits and cables come with the QV-10. The camera was launched at e price of \$995 and made available at many computer outlets and office super stores in the US, enabling Casio to enter the

consumer, small office-bome office (Soho), vertical, and personal computer markets with something e little different. "There are a whole world of opportunities for the Casio

QV-10 LCD digital camera. says Donnie Coffelt, Casio's US vice-president of marketing. "and we look forward to bringing colour digital imaging technology to e whole new segment of the market. The QV-10's built-in colour LCD high-

The Casio QV-10 hand-held digital still camera allows images to be viewed as they are shot

The early 1990s brought a market shake-out and growing

demands from customers for higher standards as they saw that their future would lie more and more with contract These developments are now

leading to important change, with leading agencies, their staff and individual contractors seeking not only to set professional standards but also to work with customers on new ideas in areas such as training, forward planning and mutual commitment. Snch developments ere

has grown eight-fold. important in the light of trends towards contracting. Research advertising campaign which by recruitment group Delphi tells employers and job buntshows that almost two-thirds ers to favour agencies with of IT departments use contracstaff who are institute memtors. A fifth of the rest expect bers. The campaign is part of to turn to contractors in the an attempt to improve stannext two years, while almost 60 dards. per cent of existing users will Mrs Julia Robertson, the use them more. chief executive, says changes

These findings are reflected last year to the legislation govin the take-off of contractors' erning job egencies have pay in the past 18 months. Recruitment firms CSS Trident focused attention on profes-sional conduct. "Agencies are and Software Personnel say now ensuring that their staff are better trained and more rates rose by just over 5 per cent in the 12 months to June eware of their legal and profes-1995, including e 3 per cent sional obligations to candidates and employers," she increase between January and June. The pace increased further in the second half, taking "Our new campaign will not only help people find quality the average increase to 11.6 per cent for the whole of last year. service but will also have However, unlike the 1980s. impact on recruitment staff the mid-1990s are seeing deter-mined efforts to establish stanwho are not yet members." Her views are supported by

dards and bring order to the market. The Institute of Employment

recruitment group, Reed Per-Consultants, representing individuals working in job agensonnel Services, which says it cies, has been promoting itself is underlining its commitment to quality by paying the mem-bership subscriptions for its hard in the IT market. The institute has a code of practice and courses and examinations 600 consultants. leading to its own qualifica-Agencies, too, are working tions. It has run a big promooo the industry's image, some tion campaign in the past 18

with their own standards months, with initiatives on age schemes. CSS Trident bas discrimination and the employlaunched its own Certified ment of disabled people. Mem-Software Specialist scheme. bership has increased by e fifth with e code of conduct. Softto 3,500 and training income ware Personnel bas drawn up separate client and cootractor It has just launched an charters covering its own behaviour towards them.

At the same time, e handful of agencies have achieved the ISO 9000 quality management standard in the past two years and e couple beve gained the Investors In People award.

The main activity at agency level is in the Computing Division of the Federation of **Recruitment and Employment** Services, which has established a code of conduct that companies must agree to before they can join. About 100 IT agencies have signed, out of an estimated 800-1.000 in the market. Tha federation is getting

aluable endorsement from the Independent Computer Contractors Specialist Group of the IT industry's main professional body, the Britisb Computer Society. This is partly for practical reasons: the federation's

ensures that reputable agenrecent block membership epplicies are supported and saves cations from some agencies. contractors the time of checkincluding the UK's biggest ing which agencies are members of the federation. Contractors can ruin their chances of winning e job if they unwittingly send their CV to e nonmember, be savs.

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In addition the group, which,

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The federation's most ambitious project, now under discussion, involves reeching agreement with employers on their skills needs end arranging training for contractors. Employers would have to

give contractors the chance to gain experience in their new skill, and contractors would have to commit to working mainly through certain agencies.

One proposal is that federation members could share training costs in exchange for guarantees thet the contractors would only work through these egencies. The training would be based on employers' needs, so in return these employers would have to be prepared to give contractors the chance to use their new

Contractors might have to agree to give priority to the encies that were supporting them in their training The plans are still in their

(+44) 181 332 0448. D The FT-IT Review in June will also examine busines strategies for the network-centric computing

House, Richmond Station Buildings, Kew Road, Richmond, Surrey TW9 2NA, tel (+44) 181 332 0446, faxback early days but all these developments of the past two or three years reflect the industry's acknowledgement that its reputation from the 1980s has had to change. era.

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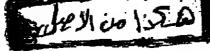
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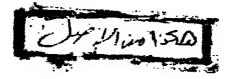


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Computer Telephyy Integration

I Overview - By Paul Taylor Learning to live together

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Some analysts are predicting that CTI and other sophisticated call management techniques will be among the main drivers of computer sales by 1999

The digital worlds of telephony and computing are on a collision course which promises to transform business communications and redefine the relationship between traditional telecommunication equipment vendors, computer and networking groups and software special-

Computer Telephony Integration (CTI), although still in its infancy, is a rapidly expand-ing market which is already generating innovative business applications and helping companies to improve customer responsiveness, productivity and efficiency.

"CTI is really the marriage of computing and telephony, and companies from both sides are offering products," says Mr Philip Armstrong of Northern Business Information, a division of Datapro. He estimates that the market for CTI was worth \$2bn last year and will grow to between \$10bn and \$12bn by the end of the decade. As telecommunications con-

verges with computer systems, the distinctions between the traditional PBX and dedicated



ritegration (CTI) promises to transform pusiness communications

communications servers in e client-server network are evaporating. Coupled with a move eway from proprietary systems and towards open standards, this has ignited the interest of both applications evelopers and potential users in CTL .

By the end of the decade some analysts are predicting that CTI - particularly desktop CTI - and other sophisticated call management techniques such as Interactive Voice Response, will be among the main drivers of computer sales. Traditionally, CTI has mainly been identified with call centres and mostly confined to large companies such as financial institutions, utili-

ties, retail and travel organisa-tions which have needed to handle a high volume of incoming calls. According to BT, there are

25,000 call centres in the US loyalty in today's highly com-

with 500,000 operators. In the petitive market place, where exclusively call centre operators, however this is expected to explode by the year 2000. By this time, BT predicts that call centres will represent only dor about 12 per cent of the UK market in CTI as more and more use of CTI is made for office automation and personal

productivity. "CTI is the next logical step for call centres," says Mr Chris Ellis, marketing manager for GPT Communications Systems in the UK, who estimates that up to 60 per cent of CTI sales today relate to call centres. Most call centre users gradu-

ated from Antomatic Call Distribution (ACD) telephone systems which have been around for about 30 years and which route calls to an appropriate operator or "agent". CTI systems go one step further by using information gathered about a caller, such as their Calling Line Identification-derived telephone number or an account number entered using a touch tone telephone, to link to a customer database. Information about the caller can then be sent to an agent's computer screen - sometimes before the caller is even connected - using a technique

called "screen popping". Employing CTI in call centres can improve customer service while cutting costs and Improving productivity. "CTI which enables 'screen popping' is already becoming a key differentiate to ensure customer

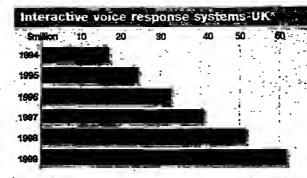
UK, there are just 17,000 CTI the whole concept of thebusiusers and these are almost ness is being reviewed across all industry sectors," siys Mr Gordon Loader, UK marketing manger for Aspect Telecommunications, a leading ACD ven-

CTI can also be used to help manage outgoing cals and optimise a telesales operation using a technique called predictive dialling which atomatically calls customers or prospective customers using a database and statistial algorithms to reduce the isk that there will be no fre agents available to deal with a successfully connected cal.

"At the heart of an predictive dialling solution i its pacing algorithm," says & Robert Schwartz, director of European sales for EIS interational. This algorithm monises and controls many variable in the call centre, such as theonnect rate, average call lenth and customer wait time.

These systems can dierentiata between no oswar. engaged signals, answering machines and a humarvoice - and connect real people to a free agent within a seend of establishing the connection while also transmittin relevant customer details o the telesales agent's screen.

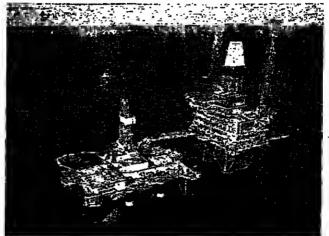
Other CTI applications include audiotext servicesuch as weather or traffic forcasts and fax-back services here callers can use a touchtone telephone to request infmation which is then sent bac to them via a computer-geneted facsimile.



Source: Delocuest

of CTI products, sometimes called intelligent office systems, are aimed at departmental or work group applications where they help support teleworking, "bot-desking" or simply ensure that customers dialling a single number reach the right employee no matter where they are.

These segments of the market have been dominated by



C3 of Cambridge has installed an emergency mobilisation system in the North Sea for Total Oil Marine. The system uses Dialogic computer telephony technology

Another fast-growing group and computer equipment vendors and independent specialists. However, the potential of CTI to transform the workplace has recently attracted the attentions of others including software groups such as Microsoft and Novell. Microsoft in particular sees desktop CTI as a personal productivity tool to be integrated into both

home and office. Microsoft is encouraging the big telecommunications developers to write CTI appli-

cations using the Telepho are lots of factions in the mar-Applications Programmin, ket with different agendas and Interface (Tapi) specificatic that results in lots of flux in developed with Intel, which defacto standards." 70 built into its Windows 95 open In an effort to address these ating system. Meanwhile, i issues, some of the largest sup-

has launched Microsoft Phonepliers in tha business have a desktop CTI productioned forces to create the designed to work with prod-Interprise Computer Teleucts such as the Creative Labs hony Forum (ECIF).

plug-in Phone Blaster tele- Others, including IBM. phone management system. pple, ATT and Siemens, have By using APIs, independent rmed a consortium called application developers such as vrsit which has already London-based Virtual Office ued specifications for the Company argue that "the power of the PABX, previously hidden away in the basement, can now be delivered to the desktop through the PC which is known and understood to the users. This way, the investment which organisations have made in telephony can finally

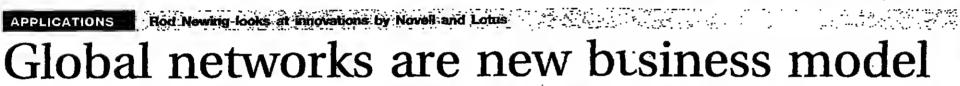
deliver very significant productivity and customer service ments " Most analysts believe the increasing power and flexibility of computing products will mean that they will continue to eat into the traditional business of the telecommunice-

tions equipment vendors. Some, like Mitel, have already. begun to respond. Although there are no PC-

based PBXs on the market today, Mitel has recently announced the development of its MediaPath open processing platform and collaborations with several computer vendors including Digital Equipment. custome Meanwhile, the entry of

Microsoft with Tapi and Novell with a rival specification called Tsapi (telephony services appli-cation interface) into the CTI market has added to the existing confusion over standards and interoperability.

Mr Keith Clarke, a consultant with CMG, the computer services group, notes: "There



"The telephone companies have access to every business and consumer in the world and have hilling arrangements in place with them. By working with telephone companies we can offer more services and charge for them using their central billing." This is Novell's vision of the fature, as outlined by Mr Lalit Nathwani, their sentor brand

marketing manager. IT companies, such as Lotus and Novell, are busy building global networks in partnership with telephone companies. This represents a new business model for the industry and is consistent with the current vision of network computing as the fature of the industry. Users access the Novell and Lotas

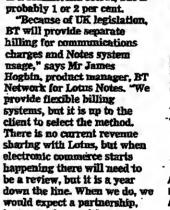
networks through their local phone company. There will no longer be a need for the wide area network or even a local area network. Documents, databases, applications and Java applets can be stored on public servers provided by the telephone company, such as those provided by BT in partnership with Hewlett

Packard. In the case of Novel, response and continuous the telephone company can hill the user for all charges incurred while connected to the system. This will cover the normal communications charges for connection, as as charges for using the value-added service which the network itself provides, such as a global directory, secure transactions, immediate

availability. The bill can also include charges for use of software and applications on the network servers. These may be either public servers or any private server attached to the network by an organisation, tocluding the 8m NetWare servers already in existence. this could include the use of pplications, Java applets or

> rvices and goods purchased er the system. This provides a secure maged alternative to the lernet, with a global

> ther objects, and information



is a commercial secret, but is

sonal Date Interchange and pPort, a high-speed wired .unection for computers, bile devices and telephones ag CTI "encyclopedia" specfinon. gether, Versit and ECTF we to keep CTI "open" so theustomers can mix hardwaand software platforms on 3 desktop, on server and

arame systems. Their idea is tork together to allow the devoment of multi-vendor CTI-plications, based on the varis international standards

Sugnitiatives could have a constable impact on CTI as the mket begins to mature. As Michann Edward, European pluct manager for Data Genera call centre products, notes: With its productivity. efficien and customer service benefits TI is certain to have a drame impact on the way business interface with their

"The ovenience and user-.preferen for the telephone will, hower, ensure its survival as sessential communication to for the foreseeable future. Imrder to maximise effectivena of customer services : whil providing a suffi-

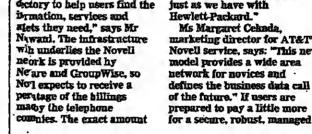
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ciently peonal service, the telephone d CTI must then learn to livtogether."



An artist's Impression of RAF Tornedos firing AirHawk mis Hughes (UK) chose BT Network for Lotus Notes to link its \$ Team AirHawk business partners throughout the UK in their bid it

 \mathbf{X}



just as we have with Hewlett-Packard." **Ms Margaret Cehada**

alternative to the Internet, marketing director for AT&T's they will pay the telephone company and will never know Novell service, says: "This new model provides a wide area how much goes to the TT network for novices and company. defines the business data call If they get this right, users will gain - and it could be a

print money!

licence for Novell and Lotus to

"It has been a success so far.

D Following our reprt in the April issue of the FIIT Review on virus protection, bus Development would be to point out that the Green Stipe virus was not circulated win Lotus software. Lotus has stingent recautions in the manfacture of its software package.

CAE STUDY Voice messaging Police test neighbourhood links

Voice usaging often seems to the Beral public to be the maccepile face of informan technology Wherein the old days you

could talo a receptionist or secretarid get a straight answer, D a computer stands in Tr way.

But it d not bave to be so. Properly fied, voice mail Can ease Chamications. British pol forces are adopting it help them work more efficity with the public to begrime. Staffordsh Police, for example, ha ecently installed a sin from the US company Octo communicateth neighbourhoGatch schemes. The tem is being tested with wi co-ordinators he Leek and Tamworth area:

It will call thoordinators automatically he time of day when they is said they should be avails and will keep calling untontact is made.

When the phon, answered, the syn will introduce itself ausk for a PIN number (pers) identification nut) to be input before it givhe latest local information. Superintendent I Lovell says: "This is a full automated system, ch is something quite notor the police. It should not y save a lot of time in contig people but also ensure the same message is deli'd to everyone. "In the past, messainave

been passed from one son to another and have bae embellished in the pro If the experiment is successful, he hopes to ind the system to cover car. warnings of trouble, sus shoplifting gangs or fool

hooligans, and to improve the call-out for key individuals to attend important incidents. Staffordshire Police first installed its voice messaging that time." system on trial in 1992 with Police upgraded its Octel internal voice mail system to 150 mailboxes. When this proved very popular, an enlarged system was installed handle communications with in 1994 connecting 28 police neighbourhood watches. A stations. pilot scheme showed very ositive results, in delivering The move to bring in the neighbourhood wetch schemes information to contacts more began in March. quickly and in saving time for Other police forces are officers, according to Supt watching the Staffordshire Mittford.

experiment closely and some have already embarked on the but it is still early days," he same route. says. "The system copes very Northumbria police have well with 50 people, but I am also begun contacting neighbourhood watches aging system voice mes

ANNOUNCING .

or 2.000." uperintendent Dennis He would like to be able to Mitford, who was in charge of encompass hotel watch and

setting it up, says: "Calling all farm watch schemes if the the contact people once a week technology proves resilient. is a buge task and anyway the Voice messaging may have other advantages for the information is out of date by So last year Northumbria

police. Answerphones have been found to be inflexible because they cannot give out complex information, cannot cope with receiving long messages and cannot forward With voice messaging, many

calls for information from the public can be answered automatically. Officers in remote stations can check their voice mail boxes for briefings instead of having to call a duty sergeant or travel to headquarters. The media can call to listen

not sure that it will be abla to cope with expansion to 1,500 to the latest news. Members of the public can leave "tips".

George Black

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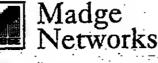
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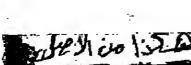


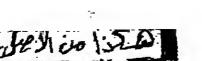
many years, bringing you a **Microsoft** powerful new business **Microsoft** resource that is sure to prove to your profit. DISCOVER the world of open systems The Intergraph Technology Centre is the place to For a full brochure pack please call or fax our visit to discover the very best solutions to your specific marketing department direct on the numbers below. business requirements. With the unique partnership of pioneering companies like Microsoft, Intel, latergraph and others all working nology together, the Technology Gentre's exciting open systems environment hosis the most com centre exposition of Pentium-based hardware and Windowsbased software running industry applications directly intergraph is the world's largest independent developer relevant to you and your busine ws NT" -based software, the world's number of Windows NI -- onsee Sonware, the work a sub-This is one of the most dynamic new initiatives to impact upon the world of computer technology in applications product portfolio in the market place today

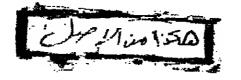
AUNIQUE NEW BUSINESS

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speech recognition

technology that enables users

to store frequently-used

numbers in memory and to

dial merely by saying a name.

The company also says that the software will let users set

up password-protected voice

mailboxes for remote collection

of messoges. In addition,

Microsoft says you can tell the computer to notify you

automatically when new

messages arrive via pager,

mobile telephone (or any other

telephone number where you

might be contactable). Newer

telephone services such as

cailer-ldentification and

call-forwarding can also be

Hardware manufacturers

"Our new multimedia

systems incorporating Microsoft Phone give individuals and small

husinesses the ability to

manage their telephone and

messaging needs in a way that's only been available to

large corporations until now,"

says Mr Kenneth Birch

vice-president of strategic

technologies available together

for the first time in Windows

"The new communications

were crucial to making this

relations at Micron.

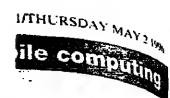
seem enthusiastic and suggest

that it will give them access to

new markets.

accessed from the software.

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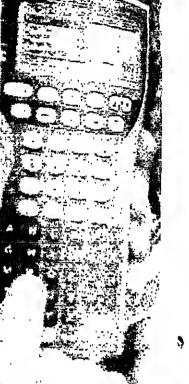
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FINANCIAL TIMES WEDNESDAY MAY 1/THURSDAY MAY 2 1996

Computer Telephony Integration

The background - By Geoffrey Wheelwright An idea revisited

With 'Microsoft Phone' software. the PC is being extended into the world of voice-based

telephone communications

The idea of marrying computer and telephone technology to produce a hybrid computer phone is not It was tried as early as the

The company says Microsoft mld-1980s with the develop-Phone is a software-only speakment of the now-forgotten erphone and answering "One Per Desk" from British machine made possible by new Telecom-ICL - a system also communications technologies known as the BT Tonto - and available only in the Microsoft the American TeleCompaq. one Windows 95 operating system, of the few failures born out of and hy new, voice-enabled US computer giant, Compaq. modems But Microsoft, the personal Manufacturers offering computer software market Microsoft Phone products and leader, has decided to revisit

systems include Creative Labs, the idea with new software Diamond Multimedia Systems that recognises the fact that Micron Electronics and Miro computer manufacturers are Computer Products. once again building telephony "Computers are already essential in fax and datafunctions in their computer systems.

modem communications. Now, Computer-makers Apple. with Microsoft Phone, Micro-Compaq and Packard-Bell have soft is extending the PC into all produced systems in the the world of voice-based tele-

past two years that include feaphone communications," says Mr Brad Chase, general man-ager of Microsoft's personal tures such as fax send-and-receive capabilities, Iclephone answering machine and speaksystems division. erphone capabilities.

"The rich communications "Microsoft Phone" software tochnniogies in Windows 95 aims to bring some standardtcombined with the product offerings of our hardware and sation to the integration of telephony functions in comput-OEM partners result in a powers. Microsoft points out that erful and integrated computerleading hardware manufacturtelephony experience for enders are now producing volce modems and complete PC **Microsoft Phone opparently** systems that provide innova-

allows users to create centraltive computer-telephony applilsed message centres that turn cations based on the new prod-PCs into speakerphones; store Manufacturers

> suggest it will give them access to new markets

all electronic-mail, voice and fax messages in a single "inhox"; let callers hear announcements. leave messages or receive faxes by pressing their phone keys; and use iext-to-speech technology to read electronic-mall messages aloud over the phone In addition, Microsoft Phone

Voice and video on the Internet - By Louise Kehoe In San Francisco

It's good to talk for nothing

Voice

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communication over the Internet is not going to put the telephone companies out of business overnight, however

os Angeles to Tokyo is now a local call," the World Wide Web promotion for Internet Phone declares. The software, one of more than a dozen software programs that has been introduced in recent months, enables Internet users to speak to one another, using the global computer network like a telephone system. The prospect of free

placed at pre-arranged times, Another drawhack is that there are, as yet, few standards in this emerging field. Different programs use various signal compression schemes and connection protocols. Thus, both parties to a call must be using the same software, or programs that employ the same compression and connection methods, in order to communicate.

up" access to the Internet,

hecause calls can only he

Another difficulty arises for users with "dial-up" access to the Internet, including most home computer users. In order to link two computers via the Internet, it is necessary to know the address of each computer. Unlike an e-mall address, which identifies a user, the address of a computer

sound signals. For example, most people agree that a CD provides sound quality superior to that of a vinyl record. In practice, however, the sound quality of Internet phone calls varies significantly.

To match the sound quality of a standard phone call, about 8 kbytes of data must be transmitted per second. Most PCs, however, are equipped with modems that transmit and receive data at much slower speeds. In practice, a 28.8k modem is needed to achieve reasonable sound quality.

To compensate for slow modem speeds, Internet phone software incorporates data compression algorithms, called codecs. However, different codecs work best at various signal speeds and it is important to choose software that is

This produces a choppy effect. in which only one person can speak at a time, an effect reminiscent of CB radio communications.

For all of the limitations. however. Internet phone software is rapidly improving and for many PC users it is a great benefit, enabling frequent conversations with distant family members, friends or husiness colleagues, without incurring high telephone costs.

Among the dozen or more Internet phone programs now available. WehTalk from Quarterdeck Software is receiving positive reviews. The program provides good sound quality and a wide variety of audio settings as well as directory assistance. It costs \$50. (http:// www.gdeck.com). WehPhone. from NetSpeak, a Florida software developer, is one of the newest pieces of Internet phone software. Launched in March, WehPhone, and a companion product called Business WehPhone System aimed at husiness users, provide full

with technology using Microsoft Windows-based It is becoming more and more initially hear a live, human, personal computers from voice when you call the Olivetti UK and is now service department of any hig corporation. Increastogly, call claiming cost savings of about £13.000 a month while management systems are increasing the volume of calls being used to take the load off it takes human operators and more According to Mr Chris

Brown, director of information technology for the National Express coaches telesales centre, the new system (dubbed Smart) has helped sales via its telesales and booking staff grow hy 55

He also says the average cost of each sale has fallen as staff have been able to do a better joh of "cross-selling" additional services while taking sales calls. The

dropped to 17 per cent in the first four months of using the system.

increase both the number of calls we take - which now average between 7,000 and 10,000 per day, as well as increasing the number we are able to convert toto confirmed sales." Mr Brown says. Meanwhile, there is an effort under way by a group of US companies (Apple, IBM and AT&T's Lncent) working with German computer and electronics giant Siemens, to hring about greater standardisation to the whole computer telephony area. These companies have banded together to launch an initiative called Versit, which is designed to get system designers and manufacturers

to create systems that conform to certain standards. At the recent CeBIT annual

supposed to eliminate technological barriers to CTI so that applications are "scalable" from the desktop across an entire hustoess and can work with a wide variety of hardware and software. Mr Larry Jacobs, managing director of Versit, says: "Although the CTI market is and all-encompassing framework for delivery of cross-platform CTI

Integration.'

Geoffrey Wheelwright



CASE STUDY National Express coaches

Smart system helps sales telecommunications show in

> Hannover, Germany, the group unvelled the Versit CTI Encyclopedia – which is "We have managed to

exploding, the todustry has failed to provide developers with a truly open, powerful applications," he says. "The Versit CTI framework represents a tremendous step forward in helping the industry move towards seamless computer telephony

National Express recently started re-engineering its integrated booking service

Aiding this trend is the parallel development of computer telephony integration (CTT) systems, which harness computing power to assist with call agement and automatic call distribution. A good example of how all these trends come together

can be found at the information technology department of the National Express coach group.

unlikely that you will

accurately direct calls to

where they are supposed to

per cent.

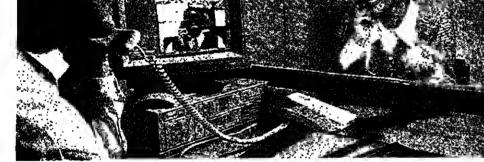
company says that prior to the installation of the new system, the sales staff navroll was equal to 22 per cent of revenue from sales. That figure has now apparently computer and



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BT's PC Videophone: making a voice-only call over the Internet is a lot more tricky - let alone a video call

long-distance telephone calls - excluding the cost of Internet access - has lured tens of thousands of personal computer users to explore this latest advance in Internet technology. However, voice communication over the Internet is not going to put the telephone companies out of husiness overnight. Making a voice call over the

Internet is a lot more tricky than picking up the phone, and the results are not always as satisfactory. The higgest problem with

using Internet phone software is that both parties must be "logged on" to the Internet to connect the call. This seriously limits the use of the software for PC users who have "dial

on the Internet - known as an IP address - is not always the same. In particular, many Internet access services assign new IP addresses to users each time they dial into the service. Internet phone calls are therefore connected via a third computer, or server, that acts like a telephone exchange. The server matches the names, rather than the computer addresses, of registered users. Assuming, however, that you have made a connection hetween your PC in Los Angeles and your friend's PC

in Tokyo, what will you hear? Voice signals sent via the Internet are converted toto packets of digital data. In theory, digitised sound should exceed the fidelity of analogue

Multimedia Services Affiliate Forum

designed to suit the speed of your modem. Signal delays are almost inevitable in conversations conducted over the Internet. This is hecause the signal may pass through dozens of other computers before it reaches its destination. The effect is to insert a short delay between the time you speak and the time the listener hears what you say. However, the annoying "echo" effect - all too familiar to those who make frequent international phone calls - does not occur on Internet calls.

To conduct a two-way conversation with simultaneous speech, a "full duplex" sound card is needed. Currently, most sound cards are "half duplex".

have an attractive cellphonestyle user interface. A free trial version of WehPhone can be downloaded from the company's Web page (http://www.netspeak.com). The retail version costs \$50.

ation

plex comm

Cu-SeeMe, a program developed at Cornell University adds another dimension to Internet telephony with audio and videoconferencing over the Internet. The program is already used hy more than 500,000 Internet users.

An enhanced version of Cu-SeeMe was recently launched as a commercial product by White Pine Software of Nashua, New Hampshire. (http://www.cu-seeme.com). Real time video and audio conferencing can be achieved with a 28.8k modem, while audio conferencing is available on a 14.4k modem.

Computer to computer phone calls via the Internet are just the heginning. Experiments are under way to enable computer users to make calls via the Internet to regular tele-An Internet Telephony Proj-

ect at the Massachusetts Institute of Technology, also plans to explore the development ent of phone-to-phone connections through the Internet.

Until now, choosing a portable PC could mean compromising on power and flexibility.

Elonex's NB-500/I notebook changes all that. Even the basic specification of the NB-500/ offers PCI Pentium power and a colour screen. And its modular design means that despite its small size and light weight, users benefit from a wide range of alternative configurations, including an optional CD-ROM drive. This Notebook has been designed to beat the best in the world, matching the versatility and processing speed of much bigger and heavier machines. Its Pentium processing power, multimedia capabilities, upgradeability and performance certainly puts the NB-500/l in a class of its own.

NB-575/1 ..__....

75MHz Pentium Processor 8MB RAM (expandable to 40M8) 10.4" Dual Scan colour screen 35" diskette drive 540MB removable hard disk drive NiMH battery and AC adaptor 16-bit SoundBlaster audio, audio ports and built in speaker 2 x PCMCIA Type II slots. or 1 x PCMCIA Type III slot Compact and light - 297 x 228 x 50mm and 2 9kg Windows 95 (or DOS 6.22 & Windows for Workgroups 3 11) pre-loaded

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Other specifications and finance available





PROFILE

Business class for the Internet

Computer companies such as Lotus, IBM and Novell are huilding global networks by forming alliances with global and regional telephone companies. Although there is a need to ensure that these services work together, there is a much more critical need to ensure that each telephone company implements the same computer technology in the same manner, to ensure that a truly global network is created and that regional incompatibilities dn nnt creep

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Customers want to be able to integrate data, image, text, video and voice from their computers and communicate with other users of the same or similar networks. "The ability for customers to choose the best services to meet their needs and to be sure of interoperability with services selected by others is

very important for sustaining the market growth for these services," says Mr Peter Eisenegger who is vice-chairman of the **Multimedia Services Affiliate** Forum. The forum was launched In

February 1996 to address these issues. It is a group of leading toternational telecommunications service, technology and content providers, who have joined forces to develop these interconnected global networks.

Used for business communications, these networks provide security, navigation, reliability and customer care, combined with the global reach and ease of use of public telephone demand, the forum's work

networks. will concentrate on Lotus They will also link to the Internet to exploit its global **Development Corporation's** nbignity and new husiness Notes Public Network,

forum are AT&T, Bellcore, Bell Global Solutions, BT, Cisco, CompuServe, DaCom, Dentsche Telekom, Electronic Trade Center (Finland), Folio (content publishers), GTE, IBM Global Network, ITK Telekomminikation, KDII (Japan), Korea Telecom, Lexis-Nexis (content publishers), Lotus, Microsoft, Novell, NTT Corp. Siemens Nixdorf, Singapore Telecom, Telecom Italia, Telecom Malaysia, Telstra and Unisource, France Telecom has committed itself to join later in 1996 and Netscape is expected to join and an active recruitment campaign is under way. to response to customer

<u>,</u>

development potential. The

founding members of the

videoconferencing and collaboration tools are expected to follow shortly. Initial deployment will be in the first half of 1996 with pilots running in the second half of 1996. A Customer Council has been formed to give users a chance to communicate their needs. The forum believes

Microsoft's client, network.

server and tool technologies,

Novell's NetWare Connect

Directory Service and Cisco

software. Multi-point desktop

Systems inter-networking

Service and NetWare

that the services it promotes will provide a "business class" area of the Internet, providing better quality services at a higher price. Further details of the forum are available at http:// www.msaf.org.

Rod Newing

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Into the future - By Rod Newing

Towards speech processing

Computer software is beginning to understand sounds, words and grammar. This allows it to process text, so that we can dictate

and translate between languages

n a few years we will be able to speak into a microphone and see our words appear in a foreign language on a computer acreen as we speak them.

This is the expected ontcome from two separate initiatives in similar growing markets, which are voice recognition and language translation. Voice recognition technology

can be used to recognise spoken commands in order to control a computer by voice, allowing users to keep their hands free.

However, voice recognition is at its best when used specifically for dictating text direct into the computer.

Voice dictation systems have been available for about three years. They are intended for professional people who do not have the keyboard skills they need to touch-type. However,

the early applications have continuous dictation, but most in the voice dictation market, as the medical profession, where specific vocabularies have been created to allow staff to work with their hands free.

In general commarcial offices, a number of pilots have been undertaken successfully. Large-scale roll-outs are just beginning to happen, with 40 or 50 users, and larger-scale

deployment will follow. "We are beginning to get bids for 1,000-user systems," says Ms Anne-Maria Derault, worldwide head of language solutions for IBM. "It has been spreading by word of mouth from happy users, but interest has now spread to board level." She estimates the total market at \$100m with a growth rate of

25 per cent per year. Dictation systams still depend on users speaking each word separately and clearly in a monologue. The aoftware uses a model of tha user's voice pattern, together with spelling and grammar checkers, to recognise words and sentences in context. Users have to train the software to understand their voices by correcting errors through the system, which constantly updates the voice model.

What users really want is

been in vertical markets such of us are unable to speak without running our words into each other. "This merges sounds and creates ambiguity which multiplies the complexity," explains Ms Derault. "More computing power is needed to solve these problems, so it is still about three years away." IBM is the largest participant

Microlise Engineering's MPhot-Talker - a belt-worn voice recognition and speech synthesis unit coupled with radio terminal technology - car be used with hands-free ber-code acenning for order piciding in warehouse and industrial applications. The voice templates of up to 100 viduals can be stored on a single terminal

but it is under pressure from Dragon. The IBM Voice Type Dictation system requires text to be recorded in a separate dictation window before being transferred to the appropriate application.

Dragon makes great play with the fact that its system allows tha user to dictata direct into whichever applica-

tion they are using - although IBM resellers AllVoice have amended Voice Type to record direct into an application. Competing systems are also available from Kurzweil and Philips. Most of these systems work

well with notebook computers, as well as desktop machines. Philips have just announced their SpeechPad, a hand-held dictation unit with voice recognition built in, for downloading direct to a PC.

Software is playing an increasing role in the translation of text from one language to another, known as "machine translation."

The technology is not perfect, but it gives an indication of the content of a document and therefore allows the user to decide whether it should be professionally translated," explains Mr Jim Lewis, president of Globalink, the world's leading supplier of translation services

"For instance, a foreign e-mail can be sent to be translated automatically. If it seems important when it is returned. the original can be sent to a professional translator." Translation software, like

voice recognition, looks at whola sentances, using algorithms to establish the mean-

₩e

liberate

ing of words from their context, so that they are translated intelligently, not literally. "Translation by computer is difficult because human language is often complex and ambiguous," says Mr Martin Turner, managing director of CompuServe UK, which provides such a aervice to its members. "Many words and phrases can have different meanings, depending on their nntert

"Vocabulary evolves continuously, with new words being added, and others disappearing from common usage, and long and complex sentences are difficult for computers to analyse. As a result, the quality of translations produced by computers is much lower than human translations. "However, machine transla-

tion can produce an understandable rough draft translation in a very short time." With the arrival of the Inter-

net, a large quantity of foreign language material is publicly available which needs to be translated. Mr Lewis points out that even people who speak English as a foreign language during the course of a day, prefer to read documents in their

own language. Machine translation is available over the internet from several sources. Readers can sess its effectiveness free of cbarge by accessing http:// unrus.globalink.com. The result will be e-mailed back within 24 bours without human intervention.

who are both good program-Lewis says.

"Barcelona," to support its software products. Barcelona is a meta language which seeks to divorce sounds from words, allowing programmers and lin-

"Software is good for casual correspondence or getting the gist of a document, but it was not designed as an outbound tool, except in the hands of a professional translator," Mr Lewis concludes. Nevertheless, he has a vision that one day a translation option will be installed on nearly every PC worldwida, and be used as

today. When the voice and translation technologies converge. people without a common language will be able to communicate by speaking into a com-puter. This will be a wonderful use of technology.

IBM's Voice Type Dictation System. It has not, however been machine tranalated through a dozen languages and back into English, even though

By Geoffrey Wheelwright

Riposte to Network Computer

The technologies of SIPC will make the PC platform the centre of entertainment. communications and productivity in home and office, says Bill Gates

t has only been threa months since Mr Larry Ellison, president of Oracla, first sent a shockwave through the computer industry by showing off a prototype of a \$500 Internet access device - called the "Network Computer" - that he claimed could supplant the personal computer in popularity.

The merits of Mr Ellison'a Idea are currently being debated by pundits all over the industry - and in early April, industry leaders (including Compaq and Intel) made what could be termed an official

aomething known as the OnNow design initiative for system-wide power manage-ment and instant accessibility, This will apparently mean that, unlike today's PCs. which can take minutes to boot up each time they're turned on, SIPC systems will be instantly available at the touch of the

"You're not going to go to your PC to look up a new fact. or find out about movies if you're sitting there watching that memory test program run. I don't think there's anything -quite as antiquated as that memory test that comes up or those kind of ugly BIOS (basic input/output system) messages that we all see. Those have just got to go away," said Mr Gates. ""Those are an artifact of sort

of our nerity past, you might say, and definitely there's no problem hiding those things. The basic idea of Oh Now is that you don't have to turn the machine on. But in order to make that work you have to

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ON batton.

Fortunately, this article was prepared with assistance from it may read that way!

Ona problem with writing translation software is that of finding software developers to write it. "There are only about two dozen people in the world

> mers and good linguists," Mr Globalink is developing a new technology, code-named

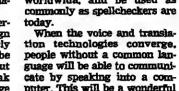
guists to work separately.

FINANCIAL TIMES WEDNESDAY MAY 1/THURSDAY MAY 2 1996

Software at work / Simply Interactive PC

Trends in voice recognition

It is just a pity that the industry has been unable or unwilling to develop a keyboard for professional users, instead of making us struggle with one developed for a typewriter.



Software



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response to it as they rallied around an initiative from software giant Microsoft

Known as Simply Interactive PC (or SIPC) - and backed by leading companies such as Compag Computer, dominant chip maker Intel and Toshiba - this effort appears custom-designed to meet and then beat the standards that Mr Ellison set for his network computer. Microsoft chairman and co-

founder Bill Gates unvelled this "framework of hardware technologies" for use with Microsoft Windows operating system-based personal computers as a full-scale riposte to all the talk of \$500 Internet appliances. According to Mr Gates. the technologies of SIPC will make the PC platform the centre of entertainment, communications and productivity in both home and office, providing the case of use and conve-

nienca of a consumer appliance Mr Gates described and dem-

onstrated key technologies and prototypes for SIPC to more than 3,000 PC hardware engineers and executives in San Jose, California at the Windows Hardware Engineering Conference 96 (WinHEC 96).

The demonstrations included enhanced audio, processed and driven from the PC through a consumer stereo system; highperformance 3-D graphics; connectivity between the PC and consumer alectronics devices; playback of "digitally perfect" audio and video; and "sealedcase concept PCs" that never need to be opened for users to connect and add new devices. Leading hardware compa-

nies - including Compaq Computer. Hewlett Packard, Intel and Toshiba America Information Systems - were quick to endorse the SIPC framework and its associated technologies. Mr Gates invited tha PC hardware industry to join Microsoft and begin making SIPC a reality immediately.

"While the PC is easier to use today, we should not be satisfied," Mr Gates said. "SIPC technologies will make the PC as easy and convenient to use as other home appliances. PCs will not only be more interactive and fun, they'll also be easier to connect to consumer devices such as VCRs, stereos and TVs. As the PC becomes a central device for entertainment and communications, it will be placed with these consumer devices in the family room."

ing for events that might come "Those events include the user coming and using the mouse or the keyboard; but they can also include a phone call coming in, where yoo want to immediately detect what kind of call is it and have that

machine turned off, and just a

little bit of logic there monitor-

vated. Mr Gates says that this is a great example where the hard-ware world and software world have to work together. "Wa have to be able to detect when we can shut down various system elements, and we have to be able to cycle those back on, and cycle them back on very quickly. We don't want any delay when you sit down and want to atart using the machine."

right type of software be acti-

"And so the On Now work is actually an initiative called ACPI - Advanced Configuration Power interface - that we have a lot of key partners, including Intel and Toshiba, who are beloing us drive that forward."

Mr Gates suggests that a consumer with no experience using a personal computer will be able to sit down at an SIPC system and immediately complete tasks such as playing a game, watching a or television programme, browsing the World Wide Web, connecting to a stereo or VCR, listening to voice mail or writing e-mail.

He further claims that extending or connecting SIPC systems to other devices will be as easy as plugging in an extension cord. SIPC technologies include support for new ways to connect to consumer electronics devices and PC pertoherals

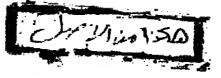
He also says that while today's PC users may dread opening the PC case, SIPC systems will not need to be opened. It will be possible for connections to ba made while the SIPC system is turned on, with no need to restart the

computer. Finally, Mr Gates pledged that SIPC systems will provide fast access to the Internet and will support critical-mass high-speed data pipelines, such as ISDN and cable modems, to the home. He says SIPC systems will support state-ofthe-art Web browsing, with enhancements to Microsoft's Internet Explorer World Wide Web Browser, and provide full

support for e-mail, voice mess-

aging, conferencing and faxing.

The SIPC design includes



FINANCIAL TIMES WEDNESDAY MAY ITHURSDAY MAY 2 1996

Software at work

CASE STUDY

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London

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atress key features and is As more staff notebooks instead of dealer PCs, organisations face be challenges in supporting the

JRSDAY MAY 2 19%

computing

users. As supporting the Notebook users tend to be around with the configuration of their systems more due vhich leads to grobing running some application non-standard software and to is also more dufficult for their notebook users barded layes: version of south applications because be applications because Computers are off size to and An the time. Ensuring that staff are the the fates, data files, and a Strice wate, or sales figures another challenge the requires your synchronized Software that

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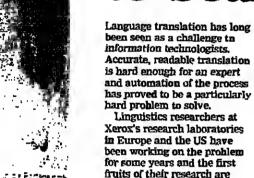
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APPLICATION Xerox tackles translation **R&D** begins to bear fruit

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been working on the problem for some years and the first fruits of their research are starting to emerge as practical and usable products. **Translation Aid Network** Services (Tans) builds on earlier Xerox research to provide a general-purpose translation "server" in a

Talking with the Woolwich The Woolwich Bullding because we failed to grasp the Society has found that as long as you pay attention to training and support, voice recogni-tion can hring productivity

benefits to busy professional "Our group resources director saw a demonstration of IBM's Vnice Type Distation aystem," recalla Mr Alex Brown, a management consultant with the Woolwich in

"He thought it was worth investigating because we have a number of people who produce large quantities of text, but who do not have strong keyhoard skills. There was also an ohvious saving for husiness professionals who dictate to their secretaries." The Woolwich carried out an

evatuation of the product which suggested that IBM had a clear lead to this product sector. It bought six copies for an initial evaluation for use to the Legal, Gronp Andit and Facilities Management depart-

"We struggled initially applied.

training need which the product requires," admits Mr Brown, "so we arranged for IBM to give users some more training. We are used to being very effective with modern

IBM's Voice Type Dictation system

software in a matter of hnurs, but the dictation system is fundamentally different in that it is a product which learns about you in a way other software doea not. Bepending on your training and how you treat it, you will get better or worse."

The trial lasted about four months and the benefits in saving secretarial time through transcription were clearly defined. Mr Brown also identified other benefits in prodoctivity.

The Woolwich then tovited staff to see the system demon-strated and they were offered the opportunity to use the system for a fixed fee, chargeable to their hudget. This fee covered hardware, snftware. training and support. They waoted 20 nsers, hut 30

client-server computing

translation services.

Accessible from a standard

Windows PC or through the

environment

These users had the system installed, enrolled to teach the software their voice model and were given thitial training. This was followed by further tratoing after two weeks. The users were issued with standard voice macros, which gave them a series of short cuts, such as transferring text into

the e-mail system, inserting standard paragraphs and spelling oul frequently-used names in full. Some users ran into hnsy periods and fell hebind in their use of the system. "You must plan the introduction into a period when users have the time to devote to It, if you are to achieve the 97 per cent accuracy which is possible," advises Mr Brown. "The system won't be effective if it is only used occasionally."

Woolwich staff found that they needed to pay attention to hand-holding, ns well as training, and especially in making sure that errors are corrected properly, so the software can learn to understand the user's speech pattern.

Users had no difficulty with speaking isolated words. We found that the system

is not appropriate for all stafl." says Mr Brown. "There is a degree of individual preference and some people did not like it. This was partly the way they dictate and partly their relationship with their secretaries. The latter were initially suspicious, but they reacted very sensibly when they realised that the system can't do all the other jobs

which they undertake." Bustoess professionals who are used to dictating found it was particularly helpful to see nn screen what they had said. rather than having to repeatedly replay a tape. Most of the current users find the system ves them more productivity.

n faster response and increased confidentiality. "I hope that the dictation system will become a product which people can order if they see the need, just like any other software nr hardware peripheral," says Mr Brown. "It is important to under-

Alex Brown: There was an obvious

ng for business prof stand that you introduce the

system to Individuais, not departments. As the technology develops. I am sure voice on will revolutionise the way in which we use computers both at work and in all other areas of our lives."

Contact: IBM Voice Type Dictation 44 (0)1705 492249 or gbib1jlaibmmail.com. This item was dictated using

an IBM Voice Type dictation system: the same system used hy the Woolwich.

Rod Newing



The Produce Marketing Association of America prints a handy publication that lists the price codes of some 250 vegetable items. it may not matter to a shopper that artichokes are coded 4516 if small, 4084 if large, but supermarket staff at the till need to use these codes to obtain the right price.

Because many of the till operators work part-time or are only employed for a few weeks, there is no question of them memorising every code. Stores issue books of the codes, but consulting these wastes time and creates queues, so check-out staff often guess some of the prices, entering an amount low enough not to antagonise customers and costing the store money. These sums are known as shrinkage. and it is estimated that in a large group an amount equal to the annual profit from one

site is lost every year. NCR, the US information technology group, has been addressing this issue in collaboration with Kansas-based Ralls Foodstores At Its Atlanta Human interface Technology Centre research lab, known as Hitc, NCR has turned to speech recognition to eliminate price code drain on the bottom line. The Advanced Produce **Interactive Cashier Offline** Training System is a grand title for Hitc's joint product

with Balls Foodstores. Under the more fetching acronym of Apricots, this is a computer-based training system that teaches check-out staff the different varieties of

With 1,000 kinds of apple available in the US, Apricots is valuable training. Subjects sit in front of a multimedia PC and attempt to identify the type of product from high-quality still pictures and video images. An earpiece acts as the voice recognition system's speaker, and trainees deliver their answers to a microphone on a short boom that extends from the earpiece around to the mouth. This is quite distinct from a microphone headset. Hitc also addresses such

issues as human reactions to the technology, NCR scientist Michael Miller says that young FT - 1 T 13

Michael Miller: 'The boys don't

want to wear a headse

check-out. Last year he had

sent his collection of plastic

to Atlanta demanding an

aupermarket and filled a

vegetable. "My cashier had

weeks. He identified 18 items

produce guides and other staff

which meant that Mr Miller

paying for the goods, while an

eathered behind him. Back at

two minutes to check the items

Apropos is not a production

system as yet, but the very fact

that supermarket chains are

unable to calculate the precise

wastage caused by the produce

code system could guarantee a

And countless staff starting

Michael Dempsey

very rapid roll-out across US

their working lives in

Hitc, an NCR colleague took

through their sample PoS

using Apropos.

suburbs.

increasingly irritated queue

and knew 15 produce codes."

The cashier consulted

spent a total of 14 minutes

only been working for 10

trolley with 20 kinds of

impromptu Apropos

demonstration.

fruit ahead to an IT industry event in Houston only to find a

apermarket chain pitching up

Mr Miller stopped at his local

хш

recognition requirement The next step, one that Balls Foodstores has yet to commit itself to, is Hitc's Advanced Produce Point of Sale, or Apropos. This dispenses with the wired link between microphone and PC. Mr Miller thinks that

infra-red communication, similar to a TV remote control. is the most likely path for Apropos. Staff can speak conversationally, recording the items in terms such as "a five pound bag of large onions" and the point of sale (PoS) system will automatically translate their words into a price code. A synthetic voice repeats their words via the earpiece, thus

allowing any error to be identified. A colleague

> took two minutes to

check the items through the

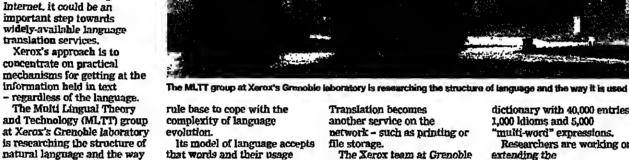
sample PoS Mr Miller says improved speech recognition algorithms

and contemporary PC power are his means of delivering accurate voice recognition. Today, a PoS system is basically a low-end PC with a cash till. Such is the extent of shrinkage caused by faulty produce codes that supermarket groups have

indicated to Hitc they will pay \$1,000-\$1,500 extra for every PoS in order to introduce Apropos. We can deliver it well within those constraints." says Mr Miller. He relates a

supermarkets will not have to endure the ritual of personal experience that memorising artichoke codes convinced him votce recognition has a future at the

HECHT TH



is researching the structure of natural language and the way it is used. The group is building a cootext. language model with a flexible

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Translation becomes Its model of language accepts change according to their

The model is the starting point for a range of practical projects. The Tans project is one of the most recent and follows on from Locolex, an earlier project from Xerox which created a

another service on the network - such as printing or file storage. The Xerox team at Grenoble has built two workstation front-end packages to give "client" access to the Tans features.

One uses the Windows PC environment and a specially-enhanced version of Microsoft Word word processor. The translation

The user can select a word in

Tans can also work from a

a document and request a

standard World Wide Web

(WWW) hrowser such as Hot

Java or Netscape which could be running on a PC or a Sun

Microsystems workstation.

Sun users can also work

through a special interface to

access a "professional" service on Tans which gives detailed

The first Tans systems were

grammatical analysis of

installed at the Grenoble

laboratory in September 1995

and the preliminary version

includes a French to English

translation.

sentences

feature is an extra function on the MS-Word menu. nanufacturer.

dictionary with 40,000 entries, 1.000 Idioms and 5.000 "multi-word" expressions. Researchers are working on extending the system to include other languages.

South States

Several Xerox companies have expressed interest in using Tans to belp in the translation of maintenance manuals.

The system has also been proposed for similar use by a large international vehicle

widely available

faced with

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problems.

to any computer user

Language translation will

always be difficult and will

The Xerox Tans project,

always need some buman

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Philip Manchester

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For unbeatable calling prices to the U.S., it's a CHECK burf were worker's whole New World. Our rates are over 50% lower RATES IN THE U.S. than most other phone companies. They're even lower than kallbackth almost everywhere in the world. Plus you enjoy maximum clarity and dependability no matter where you are. LGermany Call Francis at Switzerland 39¢ 1-201-996-1670 Montagal Call Us 24 Hours! Fax: 1-201-996-1870 Utaly e-mail: financial@newworldtele.com LOWEST RATES http://www.newworkitele.com • 6 SECOND BULLING . NO HIDDEN CHARGES NENN//@RLD • IDEAL FOR HOME HOTEL OFFICE or Cellular AGENESS, MITCHESTED IN TELECOMMUUNICATIORS 1402 Teamech Road - Salla 114 - Toznach, NJ-07666 - USA

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Fax: +44 (0) 171 896 2274 Phone: +44 (0) 171 896 2290 translation aid for a desktop computer. Locolex uses an advanced technique originating at the Xerox Palo Alto Research Center (Parc) in California. The technique is called Finite State Calculus, and Xerox says it speeds up text analysis and translation. In addition to analysing individual words, Locolex examines their context. Mnre accurate - and logical - translation is, therefore, possible

Tans takes the translation process away from the desktop; he Tans software runs to a dedicated server computer attached to a network.

CASE STUDY Voice-operated dictation Software catches up

When Mr Michael Pettman, a managing partner of commercial law firm Pettman Smith, first tried to find a system which allowed him in dictate correspondence into a computer terminal, he was told he was at least three years ahead of any commercially viable voice-operated software. Just a year later, in 1991. Pettman and Mr Chris William, his IT supplier, client and friend, of Advanced System Architecture, were so impressed with VoiceWriter. from US company DragonDictate, that they agreed to distribute it in the UK. "Our secretaries were typing a legal document, having it amended, re-typing it, having it amended, and so on," Mr Pettman explains. "VniceWriter allowed one of our eight partners or 12 fee earners to change the text as he or she dictated it. We didn't have to wait for something we'd spoken into a machine but never actually saw, in be typed and returned to us for approval. "VoiceWriter did - and does save us a tremendous amount of alteration time. since we can see what we write instantly; it gives us intal and immediate control over our own work." The system also frees secretaries to take on other. more important tasks. "This not only gives them greater joh satisfaction, but ntilises

their talents in a more productive way," says Mr

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Pettman. Last year, VoiceWriter was sold to Canadian company Kolvox Communications. Mr Pettman is now distributing Kolvox's product, based on the Kurzweil Computer Products votce operating system. The Kolvox system is very similar to VoiceWriter, and looks more or less the same on screen. Both have dictionaries of more than 200.000 words. but 50,000 of these are active at any one time in Kolvox's system, compared to 30,000 in VoiceWriter. Mr Pettman believes that speech recognition is slightly more reliable in the Kolvox product, too, although corrections are easy to make in either. When the user says "oops", the system goes back to the incorrect word and applies a menu of similar sounding words to choose from. If the correct word is not listed, the user types it in. Each system enables the user to add as many special words - that is industry specific terms - as they wish, and to incornorate phrases as single words by running words together to create one sound. For example, Mr Petiman can say: "inconnection with' as one word: the system will

print "in connection with". In addition. Mr Petiman can create a voice macro by saying one thing to obtain something totally different. This enables

standard paragraphs to be stored, which are recalled by

memorandum and articles of association paragraph, he just says: "Mems and arts". If he says "YS", the system provides two carriage returns, prints "vours sincerely", provides three carriage returns, and prints "M Pettman", VoiceWriter enabled Pettman Smith in reduce secretarial support from one for every fee-earner to one for every two fee-earners. At its peak use, about 10 people had VoiceWriter on their desks. Due to a large turnover of staff and tha change from VoiceWriter to Kolvox, machine. "as it cannot recognise normal speed speech patterns. "But the advantages of the system are tremendous. The editorial control it gives us improves efficiency, and document turnround time has speeded up tremendously. It will even print envelopes when we tell it to." But no one yet has invented a machine in seal it, stamp it, and put it in the post. just a word or phrase.

In the long term, the aim is them students, are particularly adverse to headsets. "The boys build on Tans to provide a general-purpose translation don't want to wear a headset. service which can be made They associate them with jobs like air traffic controller and they think it makes them look like a nerd." multiple languages in their

As well as soothing juvenile egos this system is effective in educating staff and cutting down on queues. Words do not have to be enunciated robotically, with clear English the only voice



VIRTUAL FINANCIAL SERVICES

James Essinger

Financial services will be the first virtual industry - can you afford to miss out?

This report from FT Financial Publishing provides practical advice for those wishing to virtualise. It includes:

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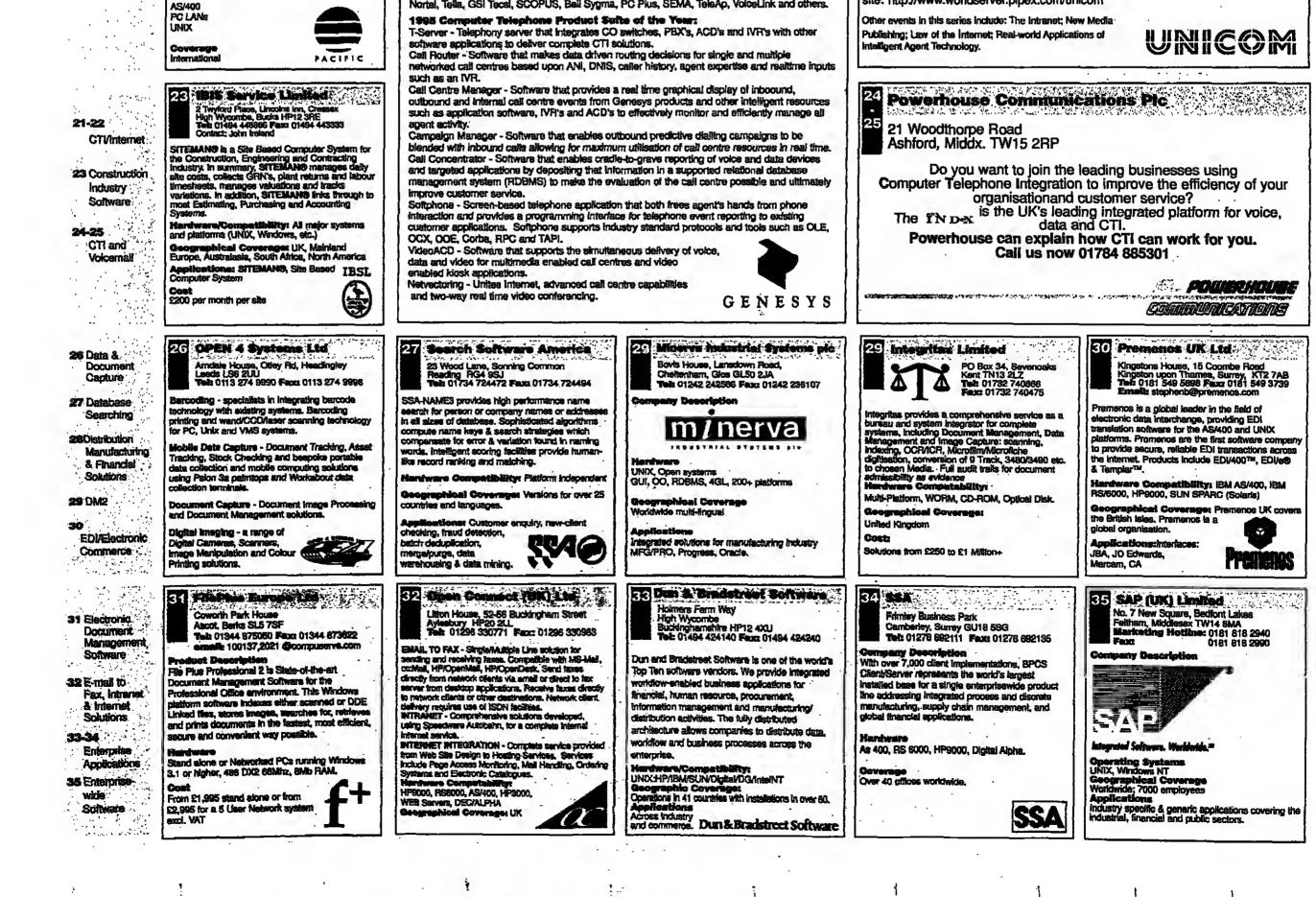
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Marcia MacLeod

If, for example, Mr Pettman

however, only three or four are using VoiceWriter at present; Mr Petiman himself has Kolvox on his But once Pettman Smith has finished installing the Windows operating system throughout the practice, new staff will be trained to speak to Kolvox, instead of a dictaphone. "We still have in speak very slowly into the machine," Mr Pettman admits,

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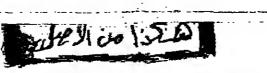
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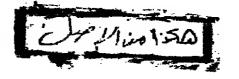
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Dear Reader

It is important for us to know as much as possible about the readers of FT-IT so that we can continue to improve this product and design others for you as well.

Whether you read FT-IT regularly or only occasionally, we would be grateful if you could help us by completing and returning this questionnaire. The survey results will be used by our editorial, advertising, marketing and electronic media departments. Your reply will be treated in the strictest confidence by Martin Hamblin Research who are a leading independent market research company. Please return the questionnaire and send it to Martin Hamblin before Monday May 20. The address is on the reverse of the questionnaire. No stamp is required if it is posted in the UK. However, it has not been possible to organise Freepost for outside the UK.

Thank you for your help. Yours sincerely

David

RHYS DAVID SURVEYS EDITOR

SECTION I - ABOUT THE FT AND FT-IT

1. How often do you read the Financial Times: a) on weekdays b) on Saturdays?

1.	How often do you read the Financial Times: a) on we	ekdays b) on S	aturdays?	
		Weekdays	Saturdays	(11-12)
	Every/nearly every issue		D 1	
	Quite often		2	
	Only when FT-IT is published		D3	
	Only occasionally		Q 4	
	Never normally	ō	D 1	
2	And how often do you read FT-IT?	-	—	
2.		ı L		
	Every/nearly every Issue			(13)
	Quite often			
	Only when I come across it	D'		
	This is the first Issue	₽		
3.	Were you previously aware of the publishing program every month apart from January and August)?		st Wednesday	of
	Yes, knew precisely	D i		(14)
	Knew it was monthly, but not which day			
	Did not know programme	D 3	···· · ·	a
	What do you use FT-IT for?			(15)
	To look for new ideas	С		
:	To understand the marketplace			
	To understand the technology	Ū,		
	To find out what competitors are doing			
	To provide points for discussion	_		
	To look for new IT applications	0 4		
	To look out for new products	D 7		
	To find out about IT companies			
	To read about people in IT			
	To find out about problems associated with IT	۵		
	(Tick as many as you wish)			
5.	What do you do with your copy of FT-IT after you have	e read it?		(16)
	Pass it on to colleagues	ı ا		
	File it for future reference			
	Throw it away	3		
6a)	What sort of people do you feel FT-IT is written for?			
	Which of these descriptions best fits you?			
		FT-IT is written for	This describest fits me	-
	Non-IT Management who want to know how computers			
	can help them		ı ا	(17-18)
	Other executives in companies using IT			
	IT Management		□3	
	Management & executives within IT companies		□.4	
	Analysts who track the IT sector		D 1	
			D.º	
	Students of Computer science	_	-	(10)
7.	Students of Computer science What other sources do you use for information about	IT?	_	(19)
	Students of Computer science What other sources do you use for Information about Other national newspapers	רים וד?	_	(19)
	Students of Computer science What other sources do you use for Information about Other national newspapers Specialist magazines		_	(19)
	Students of Computer science What other sources do you use for Information about Other national newspapers		_	(19)
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	Students of Computer science What other sources do you use for Information about Other national newspapers Specialist magazines TV Radio Colleagues/friends			(19)

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10. Are you?	D .		(22)
Working full-time			
Working part-time	D :		
Studying	D 3		
Retired			
Running the home	D,		
Looking for a job	٥		
11. What is your country of residence?		••••••••••••••••	(23-24)
12. Do you use a PC? (Tick more than one if rele	_		(25)
At home	U 1		
At work			
When travelling			
Don't use a PC	D +		
13. is your PC?	At work	At home	(26-27)
A laptop		ים	
Desktop stand alone			
Desktop networked		D3	
Don't use a PC		□4	
14. Do you have a modem?	At work	At home	(28-29)
Yes		D i	
No		D 2	
15. Is your modem speed?	At work	At home	(30-31)
Less than 14,400 baud		ים י	
14,400 baud		D ²	
28,800 baud		3	
ISDN			
Don't know		_ 5	
Don't have a modem		•	
16. What PC services do you use?	At work	At home	(32-33)
Corporate e-mail		D 1	
Internet e-mail		2 2	
Internet web access		3	
On-line services		•	
None of these		□.⁵	
17. Do you use any of the following?	At work	At home	(34-35)
CompuServe		D i	
America On-Line/Europe On-Line		2	
Microsoft Network		3	
FT Profile		4	
Knlght Ridder		□ 5	
18. If you use the web, how many different sites			
do you visit during a typical day?	At work	At home	(36-37)
1-2		D,	
3-5		2	
6-10		D3	
Over 10		□≉	
Difficult to cov	n	D s	

SECTION II - ABOUT YOU

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8. Are you?	Male	ıם
9. Are you?	Under 25	ı
	25 - 34	

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35 - 44

	Over 10			□4	
	Difficult to say			D ³	
	Don't use web			6	
	19. Which sites do	you visit most frequently?			(38-42)
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		•••••••••••••••••••••••••	•••••	• • • • • • • • • • • • • • •	-
		•••••••	•••••	•••••	-
				••••••	•
	-	eb, which Browser do you us			(43)
	Netscape		Explorer		
	Netscape 2		Other		
	Mosaic	3	Don't use we	eb ⊡ €	
	21. What type of inf	formation do you look for on t			(44)
	News				
	Job advertising				
	Information on pr	oducts/services	3		
•	Other		□₄		
	22. How often do yo	ou access the web at the follo	wing times of da	y?	(45-50)
8)			Usually	Sometimes	Never
	Start of the day		_	D 2	3
	During the momin	ng			
	At lunch-time				
	During the aftern	000			
	End of the working	ng day			
	During the evening	ng/night			
	23. Would you be p	repared to purchase goods of	n-line by credit c	ard?	
	Yes		u ،		(51)
	Possibly		2 2		
	Definitely not		□3		
	24. Does your com	bany have a web site?			(82)
	Yes		ı		
	No		D ²		
	25. Does your job re of goods or serv	esponsibility involve taking de rices? Please tick any items o	ecisions about then the list below f	e purchase, lea for which you:	ising or use
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Networks and Data Communications		
Personal Computers		
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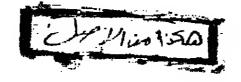
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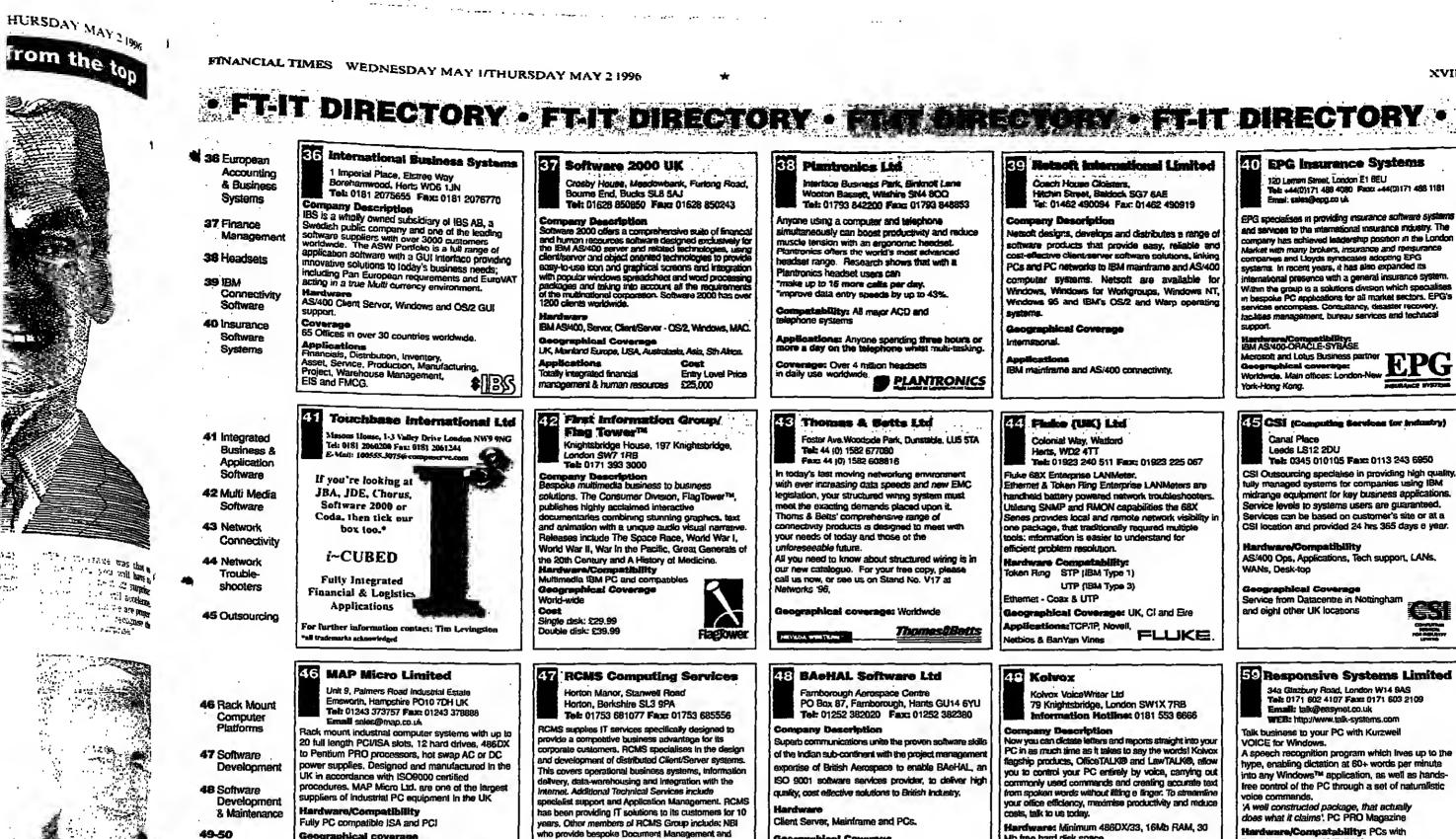
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Speech

51 Statistical

52 Storage/

Software

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Recognition

Geographical coverage

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Very competitively priced

Cost

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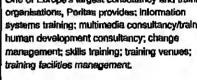
Geographical Coverage: UK and Europe Applications: Windows 3.1 or 95 Cost 5595 for Kurzweil VOICE 2.0 Inc. microphone (exc. VAT). TALK - SYSTEMS

XVII

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Internation T	Technology	Commerce	Product Description: The INDEX platform supports Processing, CTI and System management. Award-winn	PABX Keysystem, ISDN, Networking, ACD, Voice	concurrent processing of EDI; E-Mail, Fax and non- EDI data. These solutions offer the flexibility and	Interactive voice response and computer telephony integration to e range of network services.	tunctionality on a high-performance Windows NT based platform.
			EBOT the PC shore		power to meet real business needs.	In addition to integrated system provision Brite can	Hardware/Compatability:
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		Processing	our own Synergy program. PC-based Windows Operation figuration with optimal functionality.	or Console (WOC) offers traditional PABX	95 & 3.X)	telephony auditing arena.	Geographical Coverage:
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		CTI Solutions	Applications: As above	ÎNDEX	EDI & EC products - all markets	Applications: Voice and information processing	Applications: AVR,CTI, On-line services
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المجمع المحمد المحمد المحمد الم		Systems 64 Voice	The automatic switchboard t	hat callers can SPEak to	predictive dialler system available, teleservicing software or the integration of the entire call centre,	blue chip companies, andous to obtain competitive	BancTec regard Plexus tools as strategic, investing
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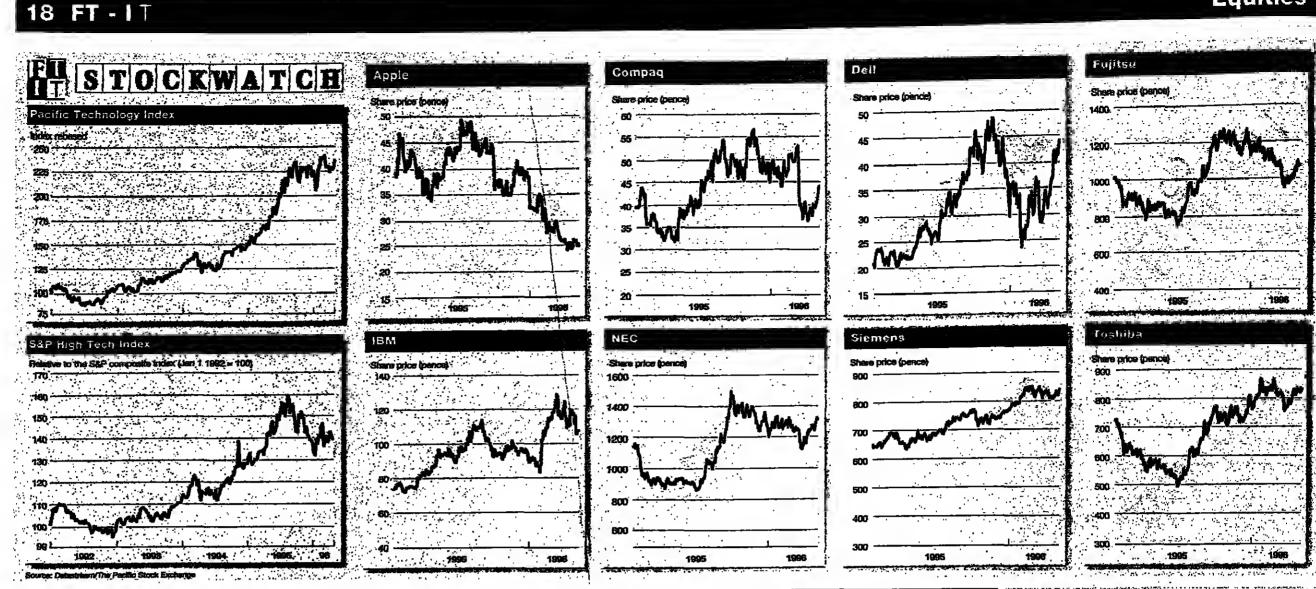
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FINANCIAL TIMES WEDNESDAY MAY 1/THURSDAY MAY 2 1996

Equities



Stockwatch comment - By Paul Taylor **US results** set the pace

'Market dynamics for 1996 appear to be strong worldwide' says Compaq chief Eckhard Pfeiffer

eading information technology shares continued to rebound last month, buoyed in part by generally better than expected first-quarter results from US-based companies including Microsoft, Intel and Compaq and mostly positive comments on the earnings outlook.

Microsoft's shares rose after it announced earnings that suggested the computer industry was healthier than por-trayed during the first three months of the year, while Intel's shares jumped 414 to 64% a day after reporting firstquarter earnings that exceeded

analysts' forecasts. Like Microsoft, Intel also was modestly upbeat on the outlook for the current quarter, as was Compaq, one of the leadresult of the decisive steps we took to competitively position our desktop and server products." He added; "The market dynamics for 1996 appear to be strong worldwide." Shares in Compaq have risen sharply over the past six

weeks, as have shares in Dell Computer, another leading portable computer manufacturer. Shares In Toshiba, the portable market leader, also continued to rebound.

However, shares in International Business Machines remained under pressure despite reporting strongerthan-expected first-quarter operating earnings and a longanticipated increase In Its quarterly dividend.

Similarly, Apple Computer's shares also remained under ing manufacturers of portable pressure as the group's new PCs, which reported a 42 per. chief executive continued to grapple with Apple's problems. In contrast, Olivetti's troublesome personal computer subsidiary has begun to recover from years of heavy

lt's taken large amounts of time, vast research programmes, immense facilities to make it a small world.

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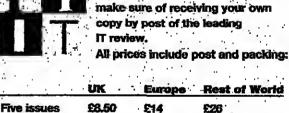
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XVIII

the multimedia (2)volution

cent increase in first-quarter sales to \$4.2bn last week. Mr Eckhard Pfeiffer, Compaq's president and chief executive, claimed the company had gained market share "as a



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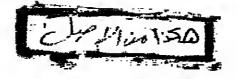
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Asset allocation: by Philip Coggan

slip-up in the US

all wrong together.

benchmark.

than its peers.

would have heavily outper-

formed its rivals. But the

chances are the manager would have received few plau-

dits for such a performance,

and would have been criticised

heavily had Wall Street

declined sharply. This herd mentality means

pension fund industry changes

slowly over the years. It may

also explain why funds have

annarently been slow to

funding requirement.

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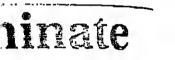


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UK funds miss out on US rally A long-term assets with liabilities. Pension funds are steadily becoming enthusiasm for the more mature, with a growing obligation to meet the income Pacific basin led to a short-term

needs of current beneficiaries by investing in bonds, rather than using equitles to provide assel growth to belp futfit There is comfort in crowds, UK future liabilities. pension funds may have been Although pension funds totally wrong about the pros-

modesily increased their expopects for the US equity market sure to bonds in 1995, the proto 1995, but at least they were portion of funds invested in conventional gilts was the That lunds had more assets sune - 6.1 per cent, according in the Pacific basin (ex-Japan) to the WM Company - as in in 1995 thau in the world's 1990, when UK government leading economy may scem bonds were in a bear market. Funds' low weighting in conodd to the casual observer. But It is a logical outcome when an ventional gilts - in 1996, the industry uses itself, rather holding was 16 per cent than an outside index, as its might seem surprising since the last decade has been a reia-If the consensus among pentively good one for bonds. sion fund managers is that US Since the start of 1990, convenequities are uvervalued, the tional gilts have produced a median fund will have a small cumulative return of 104.7 per weighting in North America. A cent, compared with 95.4 per fund which malches the weighting of the US in the cent from UK equities. And the 1995 Pensions Act was trailed FT-A World (ex-UK) index by the Goode Report, which would have a portfolio much was published in 1993, so funds more skewed to Wall Street were well aware that they might need to make a long In 1995 such a portfolio

term shift towards fixed-interest securities. However, the provisions of the Act are only being phased in slowly and will not take full effect until the next decade. Funds have no need to rush. indeed, they received an excess

return from UK equilies of six percentage points over conven-tional gilts last year. that the asset allocation of the There was a shift into the index-linked sector of the gilts market, however. The proportion of portfolios in indexrespond to the 1995 Pensions linked rose from 3.7 per cent in Act, which set a minimum 1994 to 4.3 per cent last year,

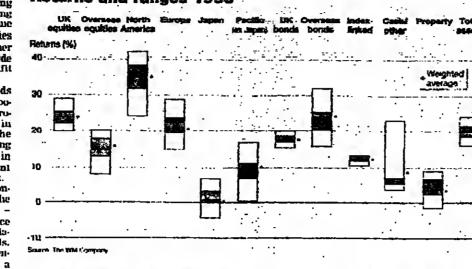
the highest level for a decade, Mr Gordon Bagot, research

The Act was expected to make funds buy more bonds, and consultancy director at as trustees strived to match WM, says that this rise was

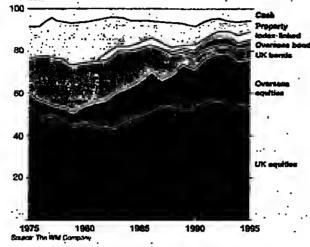
Returns and asset mix on the WM All Funds universe, end 1995

	Returns (%)	Asset Mb
UK equities	23.8	54
Overseas equatios	15.7	23
North America	35.1	4
Europe	21.7	8
Japan	0.5	5 5
Pacific (ex-Japan)	10.5	5
Other International	-2.2	1
UK bonds	17.6	6
Overseas bonds	23.7	4
Index-linked	12.1	4
Cash/other investments	6.5	5
Total assets (Ex prop)	20.2	95
Property	3.5	5
Total assets (inc prop)	19.1	100

Returns and ranges 1995



WM all funds universe: asset mix



due to a binited number of big. mature pension funds moving

heavily into the index-linked Overseas equity holdings field, rather than a general have generally edged higher over the past 10 years, although with dips in 1987 and shift by all funds. On the equity side, funds continue tu bave a beavy 1990. After peaking at 24 per weighting in the UK. It is argucent in 1993, they were down to able whether this is justified -22.7 per cent in 1995. UK equities have underper-There were a number of reaformed overseas shares over sons why managers missed out the last three and five year on the US market, which periods, although they did betoffered returns of 35 per cept

ter in 1995, and over the ten last year. Mr Ian Beauchamp, director and chief economist at years since 1986. A strong UK Hambros Fund Management weighting is justifiable from the liability-matching point of says: "In 1995, nobody believed view and gives expusure to that the US was going to enjoy a soft landing but inlerest growth in overseas economies rates fell and the resulting liquidity was invested in finanthrough UK companies' substantial export earnings and overseas operations.

cial assets. Mr David Berry, director of The proportion of pension fund portfolios invested in UK investment strategy at BZW investment Management says shares has edged down from the peak of 57.6 per cent that "people misread the

reached in 1992, but still repre-

seuls a hefty 53.6 per cent.

Gifts: by Richard Lapper

More of the same please

Funds' growing appetite for these bonds does not extend to repo transactions

A combination of economic and regulatory pressures is forcing pension fund managers to step up their gilts investments. Figures from the Cen-tral Statistical Office, published in March this year, sbow the extent of the growth to interest. Pension funds have roughly donbled their hold ings of gilts since 1991, with net flows rising from £2.77br In 1992 to £2.83bn In 1993 £8.thn in 1994 and £7.2bn in 1985. Flows into the gilts market were negative to the tune of £3.44bn in 1990.

By the end of 1995 pension fund boldings amounted to some £49bn, compared with only £24bn in 1992. During the same period pension funds have reduced their holdings of UK and overseas equities, with net investments dropping by £6.83bn to 1995. During 1994 rities how they recorded a modest rise of

Haldings of overseas equities bave also dropped, declin-tog by nearly £5bn in 1994 and rising by a mere £4m last year. There is also some anecdotal evidence that within this gen-Over five years, the Pacific basin has pipped returns from eral context funds have begun to increase their boldings nf fand manager knows he will North America by six percentindex-linked paper in particube under pressure from trustees. They are very nervous lar. Europe has been a favourite about missing ont on gilt ral-

"We have seen more investment in index-linked paper than in conventional gilts." says Mr Paul Abberley, a director with Lombard Odier Investment Management Services, "Actnarles are saying that index-linked is the way to go and allocations to indexlinked are becoming more this year, when restrictions limiting bond borrowing and common.

The shift is occuring for several reasons. Since the early 1990s inflation has fallen steadily in the UK, reflecting international trends as well as the success of the government's new counter-inflationary strategy, including the adoption of an inflation target and a greater degree of independence for the Bank of England.

This bas benefited gilts which have underperformed equities to a much lesser extent. BZW's gilt price index rose by 8.7 per cent in 1992 and 19.3 per cent in 1993. The index fell by 18.1 per cent in 1994 before recovering by 10.3 per cent last year. Meanwhile

ties in a certain quarter, the

Despite their increased expo-

sure to gills, pension funds are

as yet showing little interest

in two of the main elements of

gilts market reform intro-

dnced over the past year and a

half. Repos - introduced for

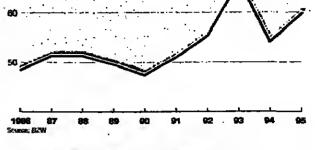
the first time in the UK earlier

lending were removed ~ have

been more or less ignored by

Gilt prices

BZW Inde



PENSION FUND INVESTMENT 5

pension funds.

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BZW's equity price index rose by 14.8 per cent and 23.1 per Altbongb repos cent in 1992 and 1993, fell by increase the extent to which pension funds can earn extra 7.9 per cent in 1994 and rose by 18.6 per cent last year. revenues on their bond portfolios, most of their investment "If we are moving to an managers make use of tradi-tional stock lending arrangeenvironment where inflation is going to be lower, there will be less to lose by investing in ments for this purpose, and have been reluctant to modify gilts," says Mr Simon Briscoe, chief UK economist at Nikko Securities, the Japanese secusystems and develop the documentation necessary to partici-

pate in the new market. One All of these changes are problem frequently mentioned affecting the psychology of both pension fund trustees and by investment managers is the technical difficulty of managing the large quantitles nf cash generated in repo transtheir tovestment managers. Mr Briscoe says that the latter are re-evaluating their overall actions. "Repos have been slow to approach to the market. "If gilts bave outperformed equi-

take off," says Mr James Johnston, investment director of **UK** fixed interest at AMP Asset Management. "Many managers are still using stock lending facilities. Repos can snmetimes offer a higher return but there are costs involved in starting to use them."

"It may snnwball down the line but it is a slow process," adds the head of gilts sales at one market-making firm. "People are watching and waiting to see the effects." Strips, zero conpon bonds created when the conpon is stripped from a bond and traded separately, which the government will introduce early next year, will also have relatively few attractions for pension fund managers - at least in the short term. New instruments, such as Inngerdated zero coopon bonds, will allow them to take tactically

bullish views more easily. Investment managers say that they are unlikely to use strips in a strategic fashion on behalf of pension fund clients, and that insurance companies are more likely to use the new instruments for matching assets and liabilities.

· Rate of return (%)

The Bank of England has played a key role in combating inflation

lies."

pean governments have little scope for further cuts in interest rates and that company earnings will disappoint. Property has been steadily declining as a proportiun of

pension fund portfolios, from 11.2 per cent in 1985 to 5.3 per cent last year. That is hardly surprising in the light of the category's poor performance; over the last 10 years. In the US, some securities firms have been arguing that

property is not a soccessful inflation hedge for institutional investors and that a basket of commodities would be a more suitable substitute. Finally, while there was an increase in cash weightings

last year, this should not be taken as overwhelming evidence of manager's caution. At 4.5 per cent, cash holdings are still well below the 6-7 per cent recorded at the end of the

extent to which the US had taken to heart the process of restructuring". Desphe the fact that many investors have doubts about the valuations un Wall Street he fuels that funds' holdiogs of US equilies may have reached a secular low. Ile adds that missing the US bull run was not quite as disas-£370m. trous as it might seem. Funds were substantially overweight in continental Europe and the Pacific, and in some areas, for example Switzerland, did as well as in the US last year.

Sticking to the foothills Faith eroded by scandal Reftern quartiles (period ending 31 Dec 1995)

The slow expansion of derivatives instruments into the pension fund market has stalled

The aversion of many pension funds to derivatives is enshrined in restrictions or outright prohibitions in their trust deeds, the blueprints for their management. This fear has been reinforced by recent scandals, such as the collapse of Barings, nipping in the bud a shift towards greater exposure to geared instruments prompted, in part, by the maturing of many sche Approximately half the pen-

sion funds in the UK are now allowed - or allow outsiders who manage money for them tn use financial derivntives. However even among those, only a small proportion actually do use them. According to the WM Company, which measures the performances of 1,455 pension funds, only 479 nf these make use of some form of derivatives. The underlying amount of deriva-tives traded hy these funds in 1995 was in excess of £40bn. Traditionally, the trustees

and directors who nversee the management of funds hove been risk-averse, because they are ultimately answerable to the pensioners. In recent years however, as funds have become more "sophisticated", they have been compelled to relax their restrictions in order to remain in line with fast-developing markets. But overall the use of derivatives is still strictly controlled.

Pension funds are increasingly relying on these producis for tactical asset allocation, and sometimes in manage their currency strategy", says Mr Graham Wood, a client consultant at the WM & Company. "But the vast majority still use them only to hedge the currency exposure an their holdings of foreign equities." Currency hedging is usually achieved through conventional currency swaps, rather than the use of more leveraged instruments. A few years ago, pension funds started to trade currency options, hnt the amounts involved have shrunk sharply in the wake of recent

incidents, such as the Barings collapse One futures and options salesman at a large Swiss bank recalls: "Between 1990 and 1994, we were doing more and more sophisticated options trades for pension funds. Most of them stopped,

and those that still trade options now limit themselves to buying calls or puts." Asset allocation via derivatives is usually a precursor to buying the underlying asset: to avoid underexposure, or the possibility of missing out altogether nn a strong market performance, the fund manager will invest in index fatures or intures funds - that replicate the market's performance during the time it takes to purchase the nuderlying assets, n process that can take several days for very large amounts. Usually, at the end



Barings bogeyman: Nick Leeson's huge losses alarmed trustees

futures positions are substan-

tially reduced. There is elso a marked behavioural difference between companies that manage their pension funds internally and those that subcontract this task to outsida fund managers. The former tend to shy away from derivatives altogether, mainly because their trustees are not equipped to evaluate the risks. When the funds are managed by out-

siders, the trustees always impose strict guidelines. According to Mr Heinz Binggeli, managing director with Emcor, a US risk management consultancy, the most common caveats are "use derivatives only to hedge", or "absolutely no leverage". Structured notes are almost always excluded. Incidents such as the Bar-

ings collapse or the losses sitive to the downside perforincurred by Orange County mance of their assets relative have left their mark. Mr to liabilities"

Sohail Jaffer, deputy chairman of the European Derivative investments and Funds Assoclation (EMFA), points to "a dip in derivatives usage between 1993 and 1995". According to n recent study by Greenwich Associates, a US financial markets consultancy, only 2 per cent of US and Canadian pub-

lic sector pension funds and 3 per cent of endowments which did nnt use futures In 1995 would consider using them. in 1993 the levels were 6 per cent and 8 per cent respectively. Attractive returns in emerging markets are increasingly

tempting fund managers, but limited llouidity in most of these sectors has always acted as a deterrent. The use of equity swaps, which allow an investor to achieve the performance of a given market, say Mexico, by pledging the returns of another - shares listed nn the London Stock Exchange for example - nffers

a very efficient way to circumvent liquidity prohlems. Index. futures, as well as options on individual stocks, are used by some managers as a way to benefit from emerging markets' performance without investing large sums

Fiscal considerations can also lead to the same logic; foreign investors in Italian ds, for example, can claim back a 12.5 per cent withholding tax on coupons; but the process can take several months. Fund managers find it easler to trade Italian bond

futures to achieve the same performance, while avoiding socinted problems and costs. New over-the-counter products after the chance to lock in a market's performance and then retain the upside polential with a total guarantee against losses.

The minimum funding ent (MFR), which will quire be gradually implemented in the UK in coming years, is also likely to boost demand for hedging instruments. Mr Girisb Reddy, co-head of equity derivatives at Goldman Sachs, believes that hy imposing a minimum level of pension fund assets to liabilities, the MFR "is likely to make pension fund managers more sen-

Funds' exposure to the mountain of outstanding debt is unlikely to rise significantly

Global bonds: by Barry Riley

Global bond returns once again switched rapidly from rags to riches in 1995 and after the disappointments of 1994 there was a strong case to be made for the establishment of global bonds as a separate asset class for pension funds. The big UK pension funds in

the WM Company's WM 50 Universe did especially well in overseas bonds last year, scoring a return of 25.7 per cent, higher even than the 23.7 per cent return on UK equities and some eight percentage points higher than UK gilt returns. However, British pension funds remain upenthusiastic abont global bonds. The average allocation was UtUe nged last year et 3.6 per ceut of aggregate year-end

assets, and to fact the exposure has scarcely changed since 1991. Meanwhile exposures to gilts - both fixed interest and index-linked - have climbed from 7.0 per cent to 10.4 per cent over the past two years.

In contrast US pension funds appear to be taking a more positive view obout the role of global bonds in their portfolios. A number of specialist bond management firms in London are benefiting from a flow of business across the Atlantic.

There is more movement in the US than in the UK so far." says Mr Paul Abberley, head of fixed interest at Lombard Odier in London. But he complains about the lack of speclalist mandates from UK pension funds: "It still seems pretty thin."

Much of the overseas bond exposure which is evident from the UK pensions industry figures appears to reflect limited allocations by the big balanced managers. There is little evidence that UK pension fund trustees are ready to hire specialist global bond managers. There is a contrast here with Continental countries such as the Netherlands and Switzerland, where there is at least a trickle of mandates. But in such countries there is a natural inclination to invest in

international bonds to diversify his domestic bond exposures. UK funds, however, would mnch rather diversify into overseas equities, which account for some 23 per cent of their portfollos. There's more activity in

1980s.

age points per annum.

area for pension funds for

some time, but Hambrus' Mr

Beauchainp warns that Euro-

Europe where people are interested in diversification nway from their own small domestic bond markets," says Mr Jon Bailie, who researches bond managers for consultants Frank Russell. "But to begin with, they want to extend elsewhere in Europe rather than globally.

What is the possible appeal of global honds? First, they have recently been offering attractive, if rather variable, returns. Average annual overseas bond returns in sterling for UK pension funds have been running at 16.6 per cent over the past five years, as good as for UK equitles, and with the advantage of adding diversification.

But there are two points to note here. One has been the weakness of the pound, which has raised all overseas asset returns. If sterling stabilises in future this attraction will disappear. The other element of the high return has been that the goveruments of mature countries all over the world have become deficit-ridden and

bave been forced to issue boods at almost any price. The risks have therefore risen. This desperation corre

spoods, on the other side of the balance sheet, to an attractive investment opportunity for hig international institutions, at least so long as the issuing countries are not driven into

default. Total net issuance by the 13 or so povernments with high enough investment ratings to figure in the JP Morgan or Salomon Brothers' global government bond indices is likely to run to more than \$500bn in 1996.

After the recent back-up in long-term bond interest rates, real yields are running at 4 per cent or more in many countries. This is attractive for long-term investors. On the other hand, the rise in yields has temporarily led to capital losses and, in many cases, to negative total returns for the first quarter of 1996.

The unhedged dollar return on the Salomon Brothers World Government Bond Index was minus 1.9 per cent in the January-March period. The worst markets, such as those of the UK and the Netherlands abowed negative returns of more than 3 per cent.

The rising volatility of global bond markets has become a disadvantage. It appears to reflect the periodical intervention of short-term participants like hedge funds and the proprietary trading desks of the big global banks.

For Britisb pension funds there is also a psychological block, in that foreign currency bonds offer no obvious clo match to any of their liabili-tles. This obstacle may be made more formidable by the forthcoming imposition of a minimum funding requirement based only on UK equities and gilts

Active global bond manage ment also involves a lot of currency and yield curve speculation, which clashes with the

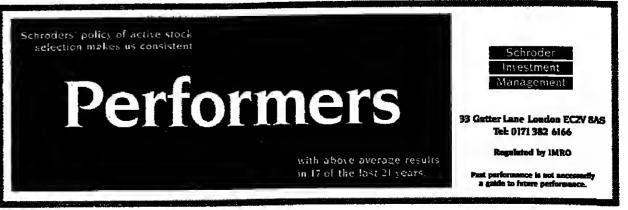
5

Meximum 75th percentile Minimum Current quarter, m quartiles (period ending \$1 Mar 1995) Plate of return (% - Mediar 5th perce 25th percen 75th percentile 95th percentik Current Опе ува

risk-averse approach of tha yielding corporate or second typical pension fund trustee. line government paper.

But the risks appear to have Meanwhile global bond managers are seeking to adjust to increased, and 1994, in particuturbulent markets which have lar, was very difficult. in 1995 penalised those relying on lonhowever, according to Frank Russell, the median manager ger-term trends. Many managers picked themselves up last just beat the index returns thanks to a good final quarter. autumn after an unfortunate 18-month period of under-So why global bonds? The performance against the indi-ces, only to run into turbuanswer has to be: "Because they're there." Mr Henry Kauflence during the winter which, man, the US-based bond expert, has pointed out that at the extreme, knocked some 13 per cent off the price of the the global bond market has been growing at an average of However, flash results for 14 per cent a year for 25 years. the Frank Russell universe for The total of ontstanding debt the first quarter suggest that now approaches the equivalent the median manager has just of \$20.000bn.

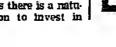
Pensian funds in many coun-Over the past ten years tries are seeing the potential of global bond managers have this global pool of bonds. But the risks are not always easy found it fairly easy to beat the indices by adding value in curfor plan sponsors to underrencies or dabbling in higherstand and accept.



US Treasury long bond.

beaten the benchmark.

5



.

Global fixed income portfolios - unhedged

1994

75,622

48,338

74,000

170.000

24.778

60,905

34,155

55,635

82,100

25,600

11,200

11,621

9,667

34,653

16,690

5,223 14,138

8,160

11,180

13,369

7,000

10.026

53,816

29,544

915,498

2 Marger with Gar d 4/88. Figures an

27.888

6 PENSION FUND INVESTMENT

PDFM

Morgan Grenfell Asset Management

UK managers: by Barry Riley

Leaders pull further ahead

There is little long-term

VI

difference between top managers'

performances They do come back. That is a cause for satisfection for several UK segregated pension fund managers - such as Mor-

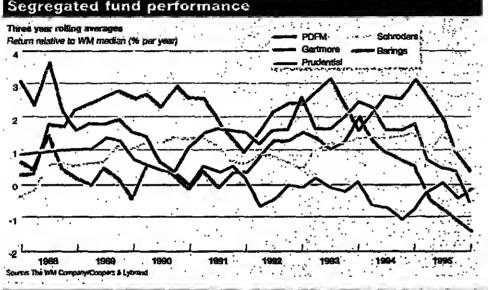
gan Grenfell and Prudential Portfolio Managers, where to varying degrees fortunes have revived after bad patches and a source of hope for oth-ers, at present under a cloud.

But managing pension funds remains a hazardous business, in which a few winners grab the spoils. There is ever more concentration of business evident in our table of the top 25 managers: the top five this year together control 64 per cent of the funds managed.

against 59 per cent a year ago. The recent takeover of Gartmore by National Westminster Bank will have enhanced this trend, taking Gartmore's expanded operation towards the £30bn mark.

Several smaller managers. bowever, bave suffered substantial business losses, most noticeably Henderson, which saw its funds halved. But maybe clients should have been more patient. As they beaded for the exit, Henderson was clocking up one of the best one-year returns in 1995.

Only Morgan Grenfell seems to be making a convincing



Gartmore Pension Fund Managers +16.8+19.4+15.7 +18.7 kuolter Asset Management Schroder investment Manageme +16.6 +15.9 M&G Investment Management Clerical Medical Investment Group +19.2+16.0 +16.5 +19.5 +21.2 HSBC Asset Management GAPS Median +16.4 +18.3 +21.5 Prudentiel Portfolio Managers +16.1 +16.1 +20.9 Cazenove +21.4 Henderson Pension Fund Mat +18.0 +15.8 +20.8 BZW Investment Manageme Newton Investment Management Fleming Investment Management +14.1 +15.7 +20.0 Bering Asset Manage +15.7 +16.1 +18.6 +15.5 Invesco +15.4 +20.8 +21.1Rothschild Aaset Menagement +15.1 Hambros Fund Management BZW Barclays Global Investors +16.2 +14.8 +20.4 n/a Figures are maden fund performance, including property. property is Cazentovo. The only find which specifically an

attempt to catch up with the leading five. It is the star of current beanty contests, with the second-highest growth rate for funds under management in 1995, at 43 per cent. The biggest gainer was the quantitative fund management

although as usual it will not arm of Barclays, now with the disclose any figures. It inelegant title of BZW Barclays appeared to be seeing clear Global Investors. Growth of benefits from the internal almost 50 per cent reflected not restructuring it has underonly the continued adoption by taken in the last two years. pension fund trustees of low-Twelve months ago risk, low-cost indexation but seemed possible that MAM also the impact of the merger might soon bs overtaken in

with Wells Fargo's asset manterms of funds under management by its fast-closing rival ent busin PDFM, an offshoot of Union Perhaps the year's most notable revival was right at Bank of Switzerland. If PDFM

experiencing this transition The second-stage crisis loom the top of the list, st the indusat a much larger size, when the try leader Mercury Asset Management (MAM). Despite the MAM is the distraction of demerging from its former parent, SG Warburg. first manager to it enjoyed a cracking year for tackle investment performance. second-stage restructuring

> manager can no longer deliver almost identical performance it to all clients and must re-engi neer its approach on a more diversified basis.

difference of more than £2bn to

its total pension portfolios by

MAM is the first pension

fund manager in the UK to

have faced the need for a sec-

ood-stage restructuring. "Hav-

ing gone through that process

of rejuvenation we are feeling

very good," says Mr Colin

Clark, director of business

faced the challenge of a first-

stage reorganisation as they

grow from being a boutique to

an institution; Newton, for

Many other companies have

the year-end.

development.

Six teams within MAM now bandle its pensions business. Three tackle different size bands, starting at £15m. Another team deals with specialist mandates. Two others handle pooled funds and defined contribution schemes respectively.

All of them draw on central resources of research and risk control. Performance presumably varies between the teams, but was strong across the house last year, boosted by good stock selection both in the UK and overseas. To give an idea, the £2.5bn pooled fund whose performance is disclosed - returned 21.1 per cent in 1995 against a CAPS median for this sector of 18.5 per cent. Sometimes performance can be too good. The top position in our five-year performance league table bas become a rather dangerous spot; two years ego Newton reigned supreme but has now suffered

instance, bas recently been	Total		
experiencing this transition. The second-stage crisis looms at a much larger size, when the	* Merger of EZW Investment Management Investment Management and Linyds Inv	nt's Quantitative Di estimant Menagora	
MAM is the	Pooled pension for	ids	
first manager to	Largest Pooled Funds	£bn	
	Scottish Widows	5.0	
tackle	Scottish Equitable "B"	2.7	
	Mercury Mgd Fund Service	2.5	
second-stage	Confederation Life	2.5	
	Prudential	1.8	
restructuring	Newton Exempt Fund	1.3	
	Schroders U.T.	0.9	
manager can no longer deliver	Gartmore	0.9	
	Gen Accident	0.9	
almost identical performance	Standard Life	0.9	
to all clients and must re-engi- neer its approach on a more	Notes: At December 31 1995 Source Intent Actuarial Performance Services	er Com-	
diversified basis.			

Mercury Asset Management

Schroder Investment Mingt

BZW Barcizys Global Investors

Morgan Grenfell Asset Mogt NatWest Investment Mogt 2

Fieming Investment Magt

Prudential Portfolio Magra

Bering Asset Management

HSBC Asset Management

Cierical Medical Inv. Group

Henderson Pension Fund Mngt

Kleinwort Benson Inv Mingt

Hambros Fund Mingt 5 Rethschild Asset Mingt

Threadneedle Asset Mingt

BZW Investment Mont

M & G Inv Mingt

Cazenove

Jupiter Asset Mingl

wion Investment Mingt

Bailine Gifford

Hill Semuel Investment Mingt3

Gartmore Pension Fund Mages

PDFM

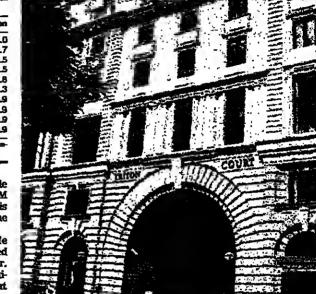
two bad years in a row, while last year's high-flier PDFM slumped in 1995 although it is still narrowly holding off the

In a year for fashionable growth stocks, value-oriented PDFM was a fish out of water, It was underemosed to equities too because it believes that stock markets are becoming seriously overpriced.

PDFM's investment director Mr Tony Dye is one of the City of London's biggest bears. Thus the 1996 edition of the company's survey Pension Fund Indicators giumly warns pension fund sponsors to "allow for the possibility of a future spell of dull returns".

As for Newton, it had a terrible first quarter in 1995, especially in overseas equities. "We've had to tighten up the investment process," admits founder Mr Stewart Newton, who this year has relinquished the chief. executive's role and has refocused on his responsibilities as investment director.

There is more specialisation among Newton's individual managers, and a Quantec risk control system has been



Top 25 segregated pension fund managers

% che

+20.9

+29.5

+39.2

+49.8 +16.3

+41.9 +16.7

n/a +20.5 -5.6

-12.0 +12.4

+17.9

+14.7 +3.0 22.8

+26.5 +15.6

+1.8 -52.5 -3.8

-23.8

-34.3 16.6

+26.7

vision with Wells Forgo Niko Investment Advisors 1/96,1994 total fonds mentaged are prene 4 1994 total funds adjusted to reflect sale of funds managed by a US subsidiary 1995, 5 R

Value of segregated funds

1995

40.268

34,064

26,585

14,382

8,645

9,800

n/a 7,589 9,689 8,300 5,253 4,226

4,179 4,474

3,009 2,764 1,999 2,109 4,159 1,765

rva 1,688

1,905

1,070

213,238

1994

48.690

44, 128

37,000

21,547 17,802

12,265

11,636 10,830

9,146 9,148 7,300 5,906 4,981 4,795 4,606 3,689 3,497 2,311

2,146 1,981 1,698 1,416

1,287 1,254 1,216

270,275

No of individual funds

1995

1002

369 286 206

211

84 33 40

41

41 85 48

63 32 30

37 14

3,455

1993

908

336

246

171

210

125 87

n/8

120

59

76 180

88

29 31

44

90

77

73

40

67

3.236

The headquarters of PDFM: the firm's performance drooped in 1995

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for many years

21 - 200

manager. "We have reviewed In any case, Newton is not the way we put portfolios together to ensure that deviaseeking new pension fund busi-"We don't expect to tions from the median perforness. reopen until we are perceived mance are dampened down," by the outside world to have says Mr Rodney Dennis, UK got things together." says Mr investment head at PPM. Newton. He adds that last Moreover Prudential sees year's deal with Royal Bank of scope to offer pension fund cli-Scotland, which now has a ents the benefit of its extensive large minority stake in the experience as 6 big life office in company, did not cause the modelling assets and liabilities. The trend towards defined conperformance problem but may tribution structures could also have delayed the response.

Prudential Portfolio Managbe in the Pru's favour, ers is much further along the So the short-term ups and downs of fortune continue to road to recovery, having picked np after bad perfor affect segregated pension fund managers quite strongly. But mance in 1993. In 1995 it shared in the long run, or even the top spot with Morgan Grenfell,

Pooled pension funds 111121 Top 10 returns (5 yrs) £b 22.7 22.7 18.3 17,7 17.7 17.4 Abbey Life Clasgow Invinit Mgrs Morgan Greniel Bank of Ireland Schroders UT 17.4 16.8 16.6 16.6 15.4 Fidelity Mercury Mad Fund Albert E Sharp Swiss CAPS media

Total funds managed

1995

62,904

37,615

57.585

23,576

20,828

30,927

30.800

n/a

48,631

70.600

27,800

10,589

10,061 8,648

31,932

14,032

11,649

7,494

12,000

n/a 10,210

41,723 27,699

613,283

% chg

+20.2

+28.8

+28.5

+0.0

+19.0

+96.9

+10.9

n/a

+14.4

+16.0

-7.9

+5.8. +17.5

+11.8

+8.5

+18.9

+30.2

+21.3

+8.9

+11.4

-1.8

+29.0

+49.3

tmore 2/96. 3 Marger of Hill Samo

Nixed with property parts \$1/12/1995, 55 Aunda mile

consistently outperforms? Not according to a study of three-year returns by Mr John Sbuttleworth, an actuarial

partner at accountants Coopers & Lybrand. The results, he says, are "not kind to the investment managers". A typical trustee objective is

to outperform the median fund by 1 per cent s year over a rolling three-year period. But no manager has consistently achieved this target over the past five years. Only Schröders has achieved even reliable 0.5 cent ontperformance: it. per had a quiet 1995 in terms of one-year returns, but its track record continues to pull in large volumes of new business. A feature of the latest five-

year performance league table is that the leading managers are in fact all tightly bunched. The top four active managers' (excluding the disclosure-sby MAM) are confined within a spread of 0.4 per cent in terms of annualised return.

Perhaps this is not surprising, given that asset allocation varies only by tiny margins in most cases (PDFM is an exception) and stock selection volaadopted. But Mr Newton says scoring a return of 21.5 per medium term, is there s great tility is nowadays controlled there is no reason to change cent, almost 2 percentage deal of difference between by sophisticated risk control

competition over five years.



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the basic approach which pro- points ahead of the median. duced excellent performance

The Pru aims to be a "safe" hope of picking a manager that ning strongly.

them? Is there a reasonable systems. The herd is still run-

PROFILE Gary Brinson US manager with balance

Mr Gary Brinson's entry into the UK pension fund market is a sign that US-based global managers are becoming more aggressive. As a start, his company has won a US specialist brief from the Civil Aviation Authority's pension fund.

Most of the pension fund nandate traffic across the Atlantic has so far been from east to west, as British investment managers sell their global investment. expertise to US clients. But Mr Brinson is one of the newer breed of Internationally-oriented US In Press

Brinson Partners was founded in 1961 as a unit of First National Bank of Chicago. After being spun off in 1989 it was absorbed into Swiss Bank Corporation in

US investment managers now have an exploitable opening in the **UK** pension fund market

April 1995. Under the name SBC Brinson it now runs all SBC's global institutional management business outside Switzerland

Worldwide assets totalled \$53bn at the end of last year, and within that the company managed over \$16bn in global portfolios for US institutional clients, making it the largest active manager in this sector. Half of the group's total assets are outside the US. Brinson Partners - this is still the trading name within the US - is the exception to the rule that globally oriented

. . .

US managers are usually to be found on the east or west coasts, in Boston or Los Angeles, for example. "Chicago is a terrific place," insists Mr Brinson. "We're not caught up in the fads and fancies of Wall Street. We can march to the beat of our own music,"

But he also maintains offices in six other centres. around the globe, including London. Although strategy is decided centrally in Chicago, SBC Brinson aims to carry out research and analysis as much as possible within local markets. US-based managers now

have an exploitable opening in the UK pensions market. The poor performance of London-based managers in US equity stock selection over the years was further emphasised in 1995, when the CAPS median fund in the UK returned nearly 4 percentage points less than the 37.9 per cent index return on Wall These UK managers also

got asset allocation wrong last year they were extremely underweight in Wall Street, which was easily the world's best-performing large stock market. "US equity accounts will be an entry point," says Mr Brinson, who clearly has his eyes on broader global mandates for UK clients eventually. In fact he is entirely sympathetic to the view that Wall Street is overpriced. But as he points out, "being too early is indistinguishable

from being wrong". Brinson Pariners' basic style is that of a multi-market, multi-asset class manager. It offers a giobal balanced style to its institutional clients, which is rather unusual at this time of increasing specialisation. "Recently we have shifted



especially US equities, into non-US bonds," says Mr Brinson. The firm has also found Brady bonds attractive - more so than equivalent emerging market equities. SBC Brinson is s value investor which focuses on fature cash flows. The assumption is that from time to time market prices and fundamental values get out of line.

"US investors spend a lot of time investing by looking backwards in the rear-view mirror," says Mr Brinson.

satisfied with that. The prospective return should be 8% to 9 per cent. "Equities could go through s period of lacklustre retarns. Or the correction could be violent." he concludes.

He adds: "The US equity

market overvaluation is now

prospective long-term return

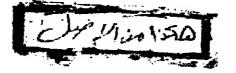
on US equities is 7 to 7½ per

cent and investors won't be

the summer of 1987. The

greater than at any time since

Barry Riley



PENSION FUND INVESTMENT 7

The US: by Maggie Urry Perplexed by their success

Funds may tinker with their asset allocations to sustain high levels of return

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After a year like last one. when the Dow Jones Industrial Average rose by roughly a third, many US pension fund managers are asking: "What do we do for an encore?" According to Greenwich

Associates, the investment management research gronp. the typical US pension fund had 46.4 per cent of Its assets in US equities at the end of 1995, up from 44.8 per cent a year earlier - a marked shift given the aize of the industry. One plan sponsor which contributed to Greenwich Associates' annual survey, put the resulting question thus: "We have had superior returns thould we now make a further change in asset mix?"

Mr John Webster, a Greeowich Associates partner, says "It is incredibly difficult to know what to do after achiev ing a terrific return in the US." One answer is to invest more internationally, a trend which has been apparent for some years among US funds. Figures from InterSec Research show growth in the proportion of funds invested internationally. Mr Jim Waterman, director of research at InterSec says: "Some funds think international equities present an attractive alternative to domestic", but he adds. the rise in international exposure is "a long term process rather than a tactical one". However, international Investment poses a problem

for funds, Mr Webster says. While many are interested in emerging markets, and particularly in Pacific Rim countries, their lack of liquidity and higher risks makes them unsuitable destinations for more than a small amount of funds' assets.

Meanwhile, Japan is a diffiscult market to assess at present. Europe also raises challenges; some markets are near

Net cash DC pens	flow - D ion plans	
Sector	1994	19951
Corporate	-15.0	.25.9

+4.8

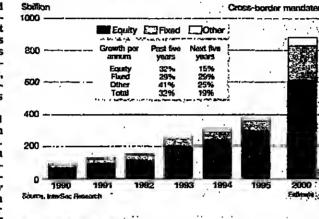
record highs, while rounification still poses problems in Germany, Even su Greenwich Associ-

ales found that investors were expecting a 10.5 per ceot return a year from their international equity investments. whlle US equities are forecast to return 9.8 per cent. They expect their asset allocation of international investments to rise over the next three years, while domestic equily weight-ings are due to fall slightly. Ms Gloria Reeg, bead of consulting at Frank Russell, the pension consultants, says that

in general funds are not changing their asset allocation targets, although many are looking at how to rebalance their portfolios in the light of lasi year's returns. Should they use cashflows to adjust percentage weightings, or incur transacti

Net cash flow to pension funds'					
Sector	1991	1992	1993	1994	1995
Corporate Sbn	-28.2	-32.4	-24.9	-102	-17.9
as % of assets	-2.4	-2.8	-2.0	-0.6	-1.4
Public Sbn	+5.4	+6.2	-5.7	-2.7	-4.8
as % of assets	+0.5	+0.5	-0.5	-0.4	-0.3

US tax exempt assets



Sources of growth

US tax exempt assets: cross-border mand Net cash flo Market



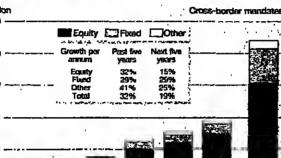
but separate: DC plans are with Ohn G

log assets from an area where they are now overweight? One beneficial effect of the rise in the US equity market bas been to offset the negative effect of lower interest rates on pension fund solvency. pension funds use long

term interest rates to discount future ilabiiltles, a fall in interest rates actually increases funds' fnture ontgoings. Thus in 1994, when interest rates rose and bood markets fell, reducing the

weightings, or tion costs in self-	nssets	of funds solve	ncy lm		between defined benefit (DE plans, where pension level are fixed according to a pre-se formula, and contribution
1991	1992	1993	1994	19957	have to be made to meet thes llabilities, and defined contr
-28.2 -2.4	-32.4 -2.8	-24.9 -2.0	-10.2	17.9	bution (DC) funds, where con tributions are fixed and th

ns. Contractions less be	nekt payment; "Eupoc	ded Source	Greenwich As	coctates	
% of assets	+0.5	+0.2	-0.5	-0.4	
% of assets blic Sbn	-2.4	-2.8	-2.0	-0.6	



final level of pensions depends on Investment performance. The latter type continues to attract more money. Indeed, as the Greenwich Associates sur-

because liabilities dropped by

Ms Reeg estimates that in

1995 the impact on liabilities

of lower interest rates was

more than offset by an

increase in assets through the

rise on Wall Street, although

she warns that final figures

Aside from the question of

where to invest their money,

plan sponsors are also looking

hard at the funding basis of

asion schemes. The choice is

are not yet available.

we than asset prices.

vey found, while DB plans as a whole are seeing a net cash ontflow as benefit payments exceed contributions, DC plans are still enjoying positive nel cash flows. However, plan sponsors are

increasingly concerned about educating members of DC plans to make wise choices. They can choose where their money is invested and can dip Into their "savings" before retirement. Both freedoms can lead to poor choices being made, seriously depleting the final level of pensions. While most experts believe

that equities offer the best long term returns, some employees prefer the "safety" of fixed interest investments. To counter this, many plan sponsors are now offering so-called lifestyle funds. These take into account an employee's age and expected retirement date and adjust the portfolios accordingly. Over the life of the fund the asset allocation is changed

gradually, becoming safer as its members age. Younger members contribute to a fund of over four times the sum of their contributions made in with a more aggresaive approach, while the investtheir working lives, workers in

Japan: by Gerard Baker The elderly are expensive

Liberalising the pension fund market will not forestall a cash crisis

Few countries face a pensio crunch on the scale of Japan's. Not only does the nation have a rapidly ageing population, soon set to put a heavy burden on public and private sector nsion fund finances, but the financial chaos of the last few years has cut deep into the returns actually achieved by those funds. Add to that a panoply of regulations that restrict the efficiency of the country's pensions market, and you have the makings of a real crisis. But there are signs that the

authorities have recognised the gravity of the problem. The opening of the country's financial markets are the route they have chosen to ease the pressure on the system. Japan'a arrangements for

retirement provision are char-acteristically complex. All employees, private and public sector, pay a flat sum into the national pension scheme. Most of them also pay a higher earn ings-related element into another state-run fund. This figure is currently 16.5 per cent

of salary, split evenly between employee and employer. But since that figure is still expected to produce a pension of roughly just 45 per cent of final salary for most employees, a growing number are now also covered by company

plans, again paid for jointly by employer and employee. Japanese pension funds are worth abont ¥190.000bn (\$1,759bn) in all, of which nearly three-quarters by value are held by the public sector.

In the next two decades, the mand for these funds is set to grow at a pace way beyond their capacity to meet it. A combination of radical demographic changes and poor

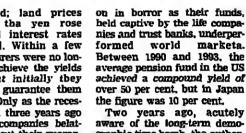
investments have put Japan's pensions system in a vice. The most pressing problem is the familiar one of an ageing population. Within twenty years the proportion of pensioners within Japan's population will have risen from under 15 per cent to 25 per cent. The burden on today's workforce is growing heavler. According to research by Goldman Sachs, the US investment bank, while today's pensioners are likely to receive total pension payments

gers: the young could face a heavy burden supporting the old when they are old enough to work edly begun to increase mandaket collapsed; land prices tory contribution rates for plummeted, tha yen rose sbarply; and interest rates employers and employees in the supplementary pension began to fall. Within a few schemes, with the aim of meetyears life assurers were no loning this requirement. But even ger able to achieve the yields these changes are unlikely to promised, but initially they suffice, because the democontinued to guarantee them graphic problem has been comnonetheless. Only as the recespounded by poor investments. sion deepened three years ago Most pension fund assets are entrusted to life insurers and did tha life companies belatedly begin to cut their guarantrust banks to Invest. Over the teed yields . last five years the returns In a normal market pension achieved by these managers funds would have moved their have been hit hard by the long assets 10 more successful manfinancial slump. In the late agers as returns began to slide, 1980s they invested in all sorts But Japan is different. A tough regulatory system ensured that

of risky assets. Their clients have paid the penalty since. the life companies and the trust banks enjoyed a virtual duopoly in asset management. For example in the 1980s life assurance companies promised returns to their investors well In 1985 some outsiders above the yield on the benchincluding several foreign trust mark 10-year government banks - were permitted to bond. They felt confident of compete for business from the their ability to meet these private sector. But the market guarantees because they were share gained by these outsiders securing big capital gains on was small.

their other assets. But at the start of the 1990s established managers fell, the pressure for change Intensified. they were hit by an unprecedented but not unforeseeable Japanese public sector fund managers in particular looked series of blows: the stock mar-

Japan: 10 year government bond Percent

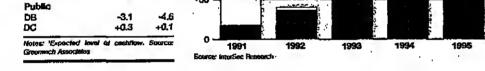


Two years ago, acutely aware of the long-term demo-graphic time-bomb, the authorities decided to act. They agreed to open up much more of the market to outsiders.

The biggest changes were made to the management of public sector pension funds. Nempuku, the Japanese body responsible for allocating up to \$200bn in funds collected from national pension contributions was the focus of the change. Until a few years ago all these funds were entrusted to the life companies and trust banks. Now the entire fund is open to all comers, and US investment. advisers have already moved in, taking some big contracts. The other big reform has been to allow corporate pension funds to hire foreign investment managers, a change that is abready beginning to bear fruit. In the last year more than twenty big Japanese companies have allocated part of their pension funds to foreign managers for

the first time. Nevertheless only a relatively small proportion of the total market can be described as genuinely open. And regulations governing the operation of such funds continue to limit pension funds' potential returns. But most foreigners believe the changes now in place have ushered in a revolution whose higgest beneficiaries will be the ever-expanding ranks of future Japanese pensioners.

VII



neuts of those near retir their twenties will actually are more conservative. The other worry - that employees will take money out too early - can be countered рауш by more education.

have to pay more in contributions during their careers than they will receive in pension ents. The government has belat87 91

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Continental Europe: by Peta Hodge

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Governments beat a slow retreat

The EU is inching reluctantly towards introducing more private sector pension provision

Pre-funded private sector pension provision in Europe is poised for growth. The mix of state provision and unfunded private pension promises that currently dominate will become increasingly unsustainable as the ratio of pensioners to workers continues to expand.

So far the growth of privatesector pension provision in Europe has been unspectacnlar. Tax regimes are generally not designed to encourage the eatabliahmant of private funded schemes, and governments which seek to reduce state provision face considerable opposition - particularly In countries where dependence on state pensions is high.

As a recent FT management report, Pension Fund Investment in Europe, points out, in the UK, where the average state pension is worth less than 30 per cent of average pay: "The government's systematic reduction in the leval of the state pension until very recently met with barely a murmur of protest. In Italy. however, where state pensions account for almost two-thirds of pensioners' average earnings, proposals for similar reforms met with mass demonatrations and threats of a national strike.

Opponents of change also fear that a switch from state lo private provision will increase indirect labour costs and fuel unemployment.

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Although European governments seem united in their desire to shed some of their censions burdens, there is little bomogeneity in their proposais for the future. Nor is there any uniformity in current practice. Whereas France and Italy have virtually no private sector pension funds, the value of pension assets in the



workers' pensions are provided using book reserves, a system France may also adopt

pean governments were to opt

for a system of fully-funded

would be unlikely to greatly

from consultants William M

Mercer, the average pension

fund in Denmark, Finland,

Netherlands and Switzerland already exceeds their GDP.

private pension provision, it The UK has the largest pension fund sector in Europe. According to the recent FT boost demand for foreign assets. According to figures report, UK funds accounted for around 60 per cent of Europe's \$1.450bn in pension fund assets at the end of 1994.

The UK also has the most Germany, Portugal and Spain, established pensions advice bas more than three-quarters industry in Europe, which sees of its money in domestic assets, which are mainly itself as the natural beneficiary of an expanding European penbonds. This bias towards domestic sions market. What many UK investment managers, consulbonds is partly attributable to tants and performance measurthe investment restrictions ers are already beginning to which still exist in many coun-

realise bowever, is that the tries. The European Commisrest of Europe will not necession would like to remove sarily adopt the same methods these, believing that more overseas investment would as the UK for expanding priallow pension fund assets to

vate provision. In France, for example, there boost capital growtb. Bnt it is coosiderable interest in covfaces entreoched opposition in ering pension liabilitles many countries. A report by the European Federation of through book reserves in the Retirement Provision (EFRP). balaoce sheet of employers. to be published later this year. rather than building up separate funds. Book reserves have is expected to argue that generally proved to be a very employers' costs could be effective in Germany where reduced substantially if greater investment freedom allowed they are worth some DM300bn pensioo funds to acbieve

(\$198bn). Even if a majority of Euro enhanced returns.

3

The barriers to better invest ment performance are not just legal ones. Many European pension funds fail to take full advantage of the limited using methods of investment investment freedoms already available to them. There are a number of possible reasons for opportunities this, says Mr Koen de Ryck of the EFRP, including cultural

bias and risk averseness. "It is not always possible to get better performance from outside the domestic market," he adds. "In the Netherlands some money managers have had a poor experience from diversification, and we have seen the same situation in Belgium and Swltzerland, Diversification

reduces risk but doesn't necessarily improve returns." Even so. European pension funds are expected to become more international in their investment outlook. That does not mean that UK investment managers can expect new businesa to fall into their laps. The market is becoming increasingly competitive," suggests Mr de Ryck. "The Americans are moving in with Ultimately selection boils down to quality and whether a manenormous capacity and differager has the necessary akills." ent services , and Germany is

getting in through the acquisition of investment managers by German banks."

To be successful in the wider European market, UK managers must be prepared to tailor their products. Analysts expect that many of the new pensions schemes that will be set up in the next few years will be established on a defined contribution (DC) basis, rather than on the defined benefits (DB) basis once popular with employers in the UK. in DB schemes the employer bears the risk of investment underperformance, but it is carried by the scheme member in a DC scheme. This dictates a different role for the Investment

manager (see article on p5). In the UK, pooled arrangements are mainly used by smaller funds where segregated management is not deemed cost effective. In other parts of Europe funds of all sizes are happy to use collec-tive investments. European funds, which do not share UK counterparts' long history of active management, are also more prepared to consider

in which computers sift big volumes of data in search of Ms Julia Hobart of consultants William M Mercer warns against reading too much into apparent trends however particularly in such an immature and rapidly changing market. "This may be more of a client thing than a country thing," she suggests. "Large

funds in most established markets tend to have quite a lot in common," she says. On the whole, Ms Hobart believes the prospects for UK investment managers in continental Europe are fairly good. "Domestic managers often get the largest proportion of assets," she says. "But when looking for specialist management outside their domestic markets, pension funds have tended to favour UK managers.



As the returns achieved by

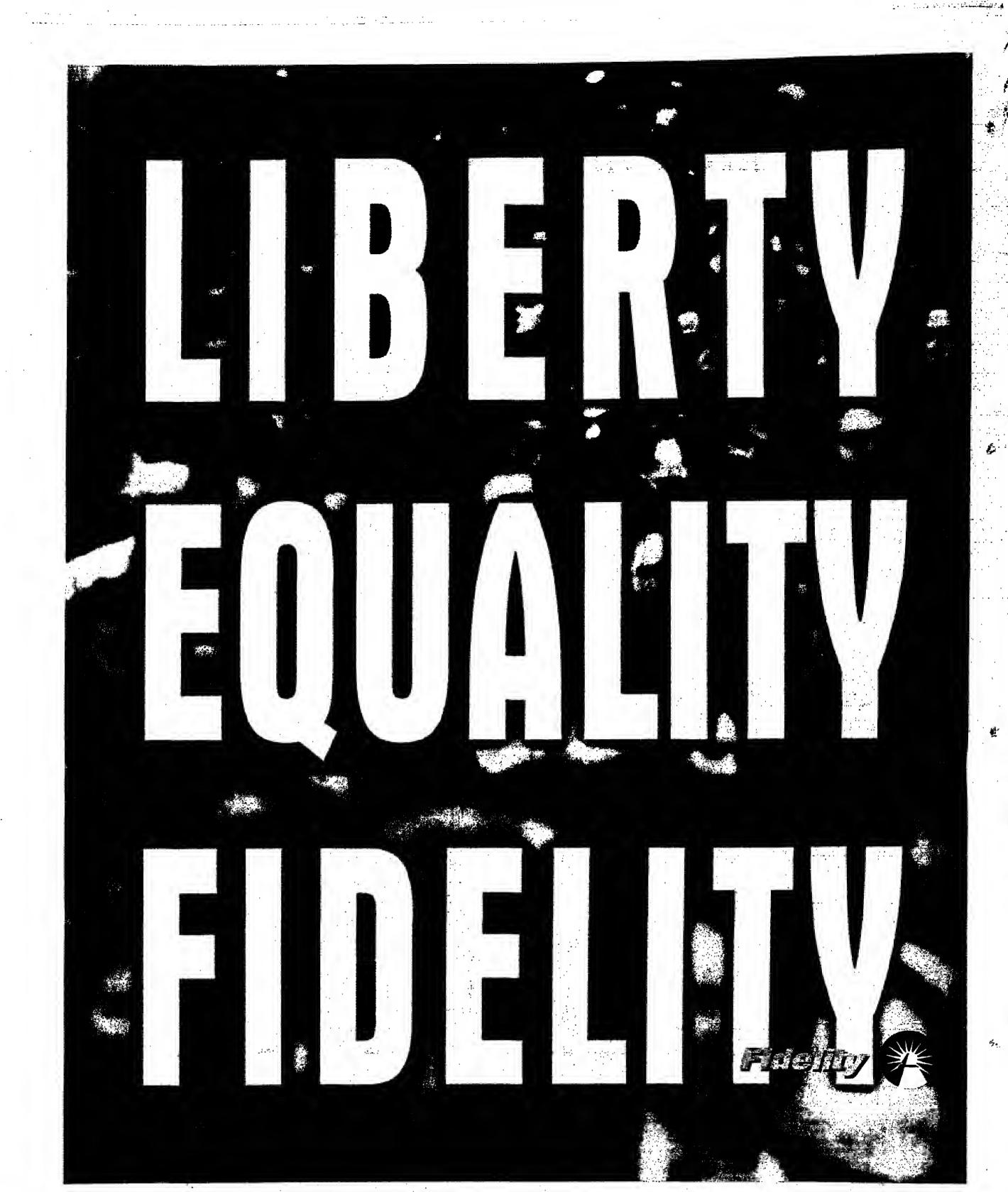
Completely up-to-date with the latest information, this Report reveals the economic, fiscal and regulatory environment in which private pension funds are developing. It identifies the main investment managers in each country and shows how their roles may develop as investment restrictions on equities, particularly in overseas markets, are relaxed.

Pension Fund Investment in Europe provides a clear analysis of this tough and fragmented market and closely examines the issues relating to pension funds, the real needs of trustees and investment boards, and the practical opportunities for investmeot managers, consultants, custodians and other pension professionals seeking to increase their market share.

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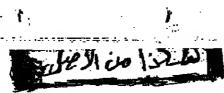
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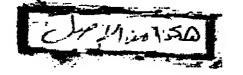
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FINANCIAL TIMES THURSDAY MAY 2 1996 *

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nd swap MARKETS REPORT Election worries push sterling to two year low

that a relatively large proper tion of Brady's were exchanged by holders other than the Mer By Philip Gawith

Nervousness about heavy tcan government. The met While the smaller that expected size and the high yield may cause the isoles to waken in the short-term be said, in the song run is should be good for Meaco because to extends this duration of the debt. estatishes a 30 year government losses in today's local elections yesterday saw sterling fall to a two year low against the dollar. It fell to \$1,4928 before recovering slightly to finish in Londcn at \$1.4965, from \$1.5006. cebt existiones a 30year

Sterling also lost ground against the D-Mark, finishing at DM2.295, from DM2.3012. The trade weighted index fell to 83.5, from 83.8. It remains The new company increases inplay form in 225 from the offer price of 225 from the section in structures, and the arritration of the decline to be company the body for the the some way above the historic low of 82.2 recorded last November. The dollar turned in a steadier performance, finishing slightly firmer against the yeo, following recent weakness, at

quickly in the Set Chorn Charges demonstry in the Set Chorn Charges Martin Merner, director Personal Spaces Credit in the Set Charges demonstry, the Set Charges demonstry, the Set Charges demonstry in the Y105.115. from Y104.755. l1 was unchanged against the D-Mark at DM1.5336. Volumes were fairly thin oo ie ared with the account of many European an and a second se markets being closed for May Day. The D-Mark was generally slightly firmer, although the

lira did at one point rally to an

Closing Change

Bid ofter

Day's Mid

15 month high, at L1,016, says: "Despite the fact that before closing at L1,021. The South Africao raod traded steadily again, finishing at R4.33 against the dollar, from R4.3225. South African markets were also closed.

Although sterling's fall was due largely to politics, it also contained a technical element, suries." with the \$1.5050 level being an important one. Analysts were fairly sanguine about the drop. They pointed out that a correctioo had been overdue, considering sterling's surprising receot strength, taking into account the government's fragile majority. There are a oumber of contime" cerns surrounding sterling. Mr Kit Juckes, curreocy analyst at NatWest Markes lo London,

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Sterling consumer demand is showing Against the dollar (5 per £)

signs of picking up, calls for lower interest rates and even lower tax rates, later this year, remain. Gilts offer attractive yield pick-up relative to some

Europeao markets, bui certainly not relative to Trea-1.7 He continues: "A pick-up in domestic coosumption at a time when demand in the UK's major export markets remains 1.5 virtually morthund, bodes ill for the balance of payments in the months abead." With the political backdrop added in, he sald a conclusive break below

\$1.50 was "only a matter of Mr Brian Martin, economist at Barclays in London, said he did not expect any sell-off to be too rapid. "There is reasonable buying interest at lower lev-Mr Joe Prendergast, curreocy atrategist at Merrill Lynch in London, said the fact

One year

that sterling had fallen against

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both the dollar and the D-Mark showed that there were "speclific sterling concerns in the market." But be said the depth of coarket pessimism was already so great as to offer protection against anything but the very worst election out-

Despite the dollar's recent

come.

May '

losses against the yen, there

Cioson

Change

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Bank of

Mr Prendergast cated the dollar's breach of SFr1.24 against the Swiss franc, the equivalent of DM1.50 against the D-Mark; the resilience indicated by the dollar's bounce against the yen; and the breach of FFr5.18. against the French franc, as evidence of dollar strength. This view received some support from Mr Brian Marber, an independent technical analyst, who is predicting good things for the dollar against the Swiss fraoc. French fraoc aod D-Mark in May. He is also opti-mistic against the yep: "Since

CURRENCIES AND MONEY

there is no sign of any toppingout process in dollar.D-Mark, the likelihood of the dollar heading south against the yer

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FUTURES

have been some indications in

Europe which testify to inde-

pendent dollar strength, and

oot shoply D-Mark weakness.

B OTHER CU for very long from current levels, while heading in the oppo-site direction against D-Mark

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yen appreciation, hut there was some doubt as to whether verbal iotervention alone would suffice.

anese economic activity.

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Germany	(FFr) (DM)			-148 - 507		7,7364			7.7058		7,5729	2,3 106.5	France	(FFr)	5.1773	- 770 - 775	5.1695 5	5 1705	51704 16	5.1561 1.6	5.0353 1.7	108.8	1							58.05
Sieece				938 · 961		2 2926	2.29	2.6	2.2796	2.7	2.2292	2.9 108.3	Germany	(DM)	1,5336	- 333 - 338			1.5311 2.0		1.5911 2.4	107.5	Sep	96.12	96.13	+0.01	96.14 96.14	96.10 96 10	13,839 4,810	48.92
reland	(Dr) (20)			859 - 852				-		-		- 67.0	Greeco	(Dr)	244.140				245.815 -8.2			56.5	Dec	96.13 95.98	96.13 95.98	+0.01	95.99	95.96	3.533	27.82
taly	(02)	0.9641		633 - 649 244 - 445		0.9627			0.962		0.9552	0.8 98.3	ireland.	(C3)	1.5523	-0 0002 515 - 530			1,5529 -04				U.S.	33.90	93.30	+0.01	30.99	80.90	3,335	21,02
uxembourg	ແກ້			240 154			47.0647		2356.79 45,8547		2418.49 45.9347	-3.2 75.7 2.6 108.8	italy		1565.95	+1.33 580 - 610			1572 -4.6			75.1	THREE	NONTH	EUROMAR	FUTURE	S (LIFFET I	OM1m point	s of 100%	,
letherlands	(71)			650 - 677		2.5645					2,4882	3.0 107.0	Netherlands		31.5200	+0.005 000 - 400				31.3605 2.0		106.4			C.m.	-		1.000	Est. vol	0
lorway	NKA			441 - 619		9.8417			9.8248		8,7292	1.3 98.3			1.7149				1.7115 2.3				I	Open	Satt price	Change	High	Low		Open i
ortugai	(Es)			022 - 328					235.505		0.7202	- 95.0	Pertugal	RNKA	6.5841 157,150	+0.0015 203 - 878 -0.05 100 - 200			6 5812 0.5 157 465 -2.4			97.8 95.0	Jun	96.85	96.83	-0.02	96.85	96.81	15835	21150
pain	Pro			620 823				-20	101 597	-17	193.182		Spain	(Est) (Paul	127.445				127 695 -2.4			81.3	Sep	96.85	96.87	+0.01	96.87	96.81	22056	23403
weden	(SK)			288 - 500			10.2407		10.2424		10.2446	0.0 88.4	Sweden	(SKO	6.8423	+0.045 375 - 470			6.8533 -1.9			88.4	Dec	96.66	96.69	+0.01	96.69	96.63	11489	19465
Swritzenland	ISFI			672 - 695		1.8651					1.7617	4.1 111.5	Switzerland		1.2485	+0.0038 481 - 488		1.2431	1.245 3.4			111.4		96.35	96.35		96.37	98.32	8883	13119
JK	(2)	- 1										- 83.5	UK	(E)	1.4965	-0.0041 960 - 970			1.4957 0.6			83.4	THREE	MONTH	SUROLIRA	RUTURES	(UFFEP L1	000m point	s of 100%	
icu	-	1.2215	-0.0018	207 - 225	1.2275	1.2201	1.2203	1,3	1.2173	1.4	1.204	1.4	Ecu	-	1.2250				1,2258 -0.7					Open	Satt price	Change	High	Low	Est, vol	Open in
SDR†	-	1.040000	-	-				-		-			SDRT	-	0.66960							-	Jun	91.35	81,32		91.40	81.31	4937	51226
moricas													Americas										Sep	91.85	81.89	+0.03	91.90	81.85	2886	3084
vgentina	(Peso)			896 - 913		1,4895	-	-	-	-	-	•	Argentina	(Peso)	0.9960	- 957 - 962						-	Dec	92.10	92.06	-	82.11	92.05	1146	22507
anaza a	(135)			840 - 855		1.4813			-	-		•	Brazk	(RS)	0.9922	-0.0001 920 - 923							Mar	92.01	82.01		92.04	92.01	73	8907
Canada	_(C\$)			376 - 398		2.0335	2.038	0.4	2.0343	0.8	2.0263	0.8 64.E	Canada	(CS)	1.3623	+0.0008 620 - 626		1.3610	1.3621 0.1			63.8	B THREE	HONTH	EURO SWIS				tm nointe	of 100%
	w Peso)			629 - 003		11.0625				-				New Peso)	7,4050	-0,0495 950 - 150	7,4150 7	3950	7.5665 -26.2	7.7515 -18.7	9.515 -28.5	-		_						-
JSA	୍ରାର		-0.0041	950 - 970	1.5057	1,4928	1.4957	0.5	1,4948	0.5	1.4905	0,4 96.5	USA	(5)			-					97.1		Open	Sett price	Change	High	Low	Est. voi	Open in
acific/Middl													Pacific/Mid										Jun	68,15	96.14	-0.01	98.15	98,12	2697	25039
kustralia Kong Kong	AS			951 - 976		1,8910			1.904		1,9293		Australia	(AS)	1,2671	-0.0047 668 - 676		1.2665	1,2691 -1.9			B3,5	Sep	98,12	98.11	-0.02	96.12	98.09	1390	18245
ndia	(HNS) (As)			725 - 817 120 - 956			11.569		11.5574	0.7	11,5376	0.3 -	Hong Kong India	(HKS) (Rs)	7,7361 34.6500	+0.0006 356 - 366 -0.1 000 - 000			7.7368 -0.1			•	Dec	97.85	87.86	-0.02	97.86	87,83	203	11338
ST30	(Shki			786 - 880		4,7785		-		•	•		Israel		3.1964	+0.0021 944 - 984			34.0 -3.0		30.373 -3.0	-	Mar		97,55	-0.02	-	-	0	4100
lapan	(M)			185 - 425		157,180	156.58	5.5	155.08	5.6	148.675	5.5 139.8	Japan	(Shik) M	105,115				104.67 5.1		100.03 4.8	140 8	I THREE	NONTH	EUROYEN I	UTURES .	(LIFFE) Y10	Om points a	100%	
Aalaysia	(MSS)			260 - 320				5.5	133.08	5.0		3.5 135.6	Malavsia	(MS)	2,4925	-0.0013 920 - 930			2.4934 -0.4			140.0		Open	Sett price	Change	High	Low	Est. vol	Open in
lew Zealand	(NZS)			917 854		2,1780	2,1866		2,1981	-2.8	2,2318	-2.2 107.5	New Zealan		1.4590	+0.003 584 - 599			1.4621 -2.5		1.4925 -2.3		.tum			Cu ta Ga	98.11			opera
hippines	(Peso)			054 - 064						-	-		Philippines		28,1650	+0.005 400 - 900							Sep	99.10 96.75	99.11 98.77	0.03	98.77	89.10 98.75	26 443	na na
Saudi Arabia	(SR)			100 - 142		5.5967			-	-	-		Sauci Arable		3,7502	-0.0001 500 - 503			3.7506 -0.1	3.7513 -0.1	3.7547 -0.1	-	Dec	98.43	98.44	-0.04	98.44	88.43	2795	58
Ingapore	(55)	2.1044		029 - 058		2,1019		-	•	•			Singapore	(35)	1,4062	+0.0002 057 - 067	1,4075 1	4050	1.4026 3.0	1.3966 2,7	1.3712 2.5	-								
South Africa	ŒÛ		-0.0062	702 - 895	6.5122	6.4601		•	•	-			South Alrica		4,3300	+0.0075 250 - 350	4.3350 4	1.3250	4,3587 -8.0	4.4103 -7.4	4.6335 -7.0		Innet	ORAN	ECU FUTUR		Ecuim po	avera del 1003		
South Korea	(Won)	1164.65	-3.15	418 - 512	1171,74	1161.35			-	-			South Korea	(Won)	778.250	- 200 - 300						-		Open	Sett price	Change	High	Low	Est, vol	Open in
awan	(15)	40.6614	-0.1093	448 - 780	40,9147	40.5639	-	-	•	-	-		Talwan	(TS)	27,1710	+0.0005 690 - 730	27.1810 27	7,1680	27.191 -0.9	27,231 -0.9		-	Jun	95,82	95.81	-0.01	85.82	95,82	50	9248
hallend	(81)	37.8198	-0.0723	890 - 442	38.0310	37.7230	-	1.1		•	•		Theiland	(81)	25,2700	+0.02 600 - 800	25.2850 25	5.2490	25.3687 -4.7	25.5725 -4.8	26.456 -4.7		Sep	95.85	B5.84	-0.01	95.85	95.85	з	4848
Pates for Apr .	90. Bitlio	fler spreads (the Pound	Spot table sh	ow only the	last three d	technal place	tes, Forw	and rates a	ne not di	rectly quote	d to the market bu	† BDR rate pe			repreads in the Dollar Sp							Dec	95,69	85.68	-0.01	95.68	95.69	Б	3307
												/95, Bid, Offer an	publication but any	e implied by p	שליין (חסדש	rest rates, LIK, Ireland & B	CU are quoted	in US cur	mency, J.P. Morg	en nominal indices	Apr 30: Hana average	e 1980=100.	Mar		95.42	-0.01	-		0	1964
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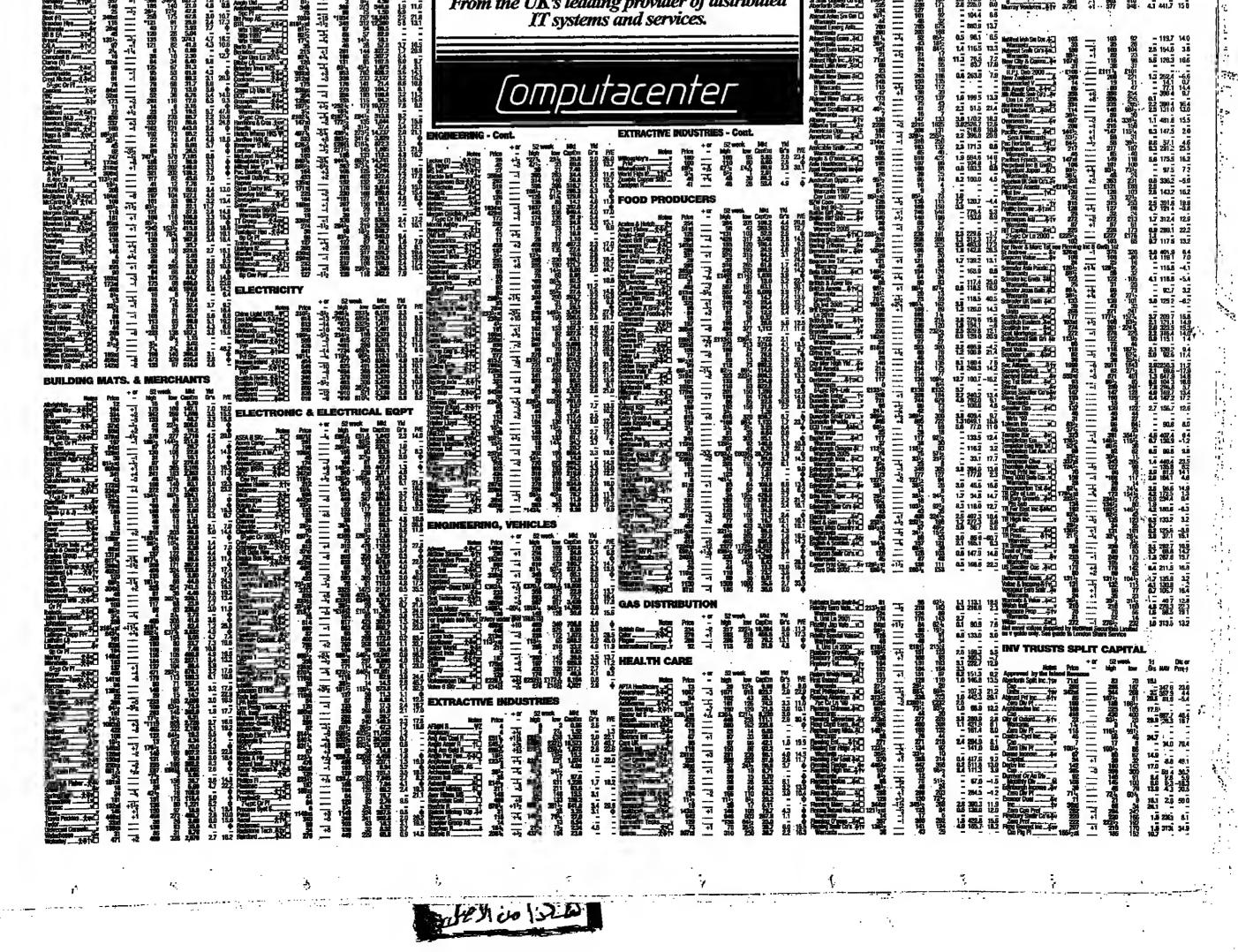


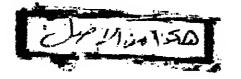


	May 1 BFr DKr FFr DM IC L FI Belgium (BFr) 100 18,75 16.43 4,965 2.044 4967 5.440 Deamserk (DK) 53.32 10 8.759 2.694 1.090 2.643 2.901 Frances (Fr) 50.88 11.42 10 2.962 1.244 9024 3.312 Germenny (DM) 20.55 3.645 3.376 1 0.420 1021 1.118	NKr Es Pta SKr SFr £ C4 \$ Y Ecat 20.89 496.8 404.3 21.71 3.960 2.120 4.323 3.172 333.5 2.591 11.14 265.9 275.8 11.56 2.112 1.130 2.305 1.661 177.8 1.381 12.72 303.6 246.1 13.22 2.411 1.291 2.632 1.931 203.0 1.577 4.293 102.5 83.09 4.462 0.814 0.4366 0.6652 68.54 0.532	Berkeley Futures Limite State 38 DOVER STREET, LONDON WIX SEB A CONTENTIVE SERVICE TEL 0171 629 1133 FAX: 0171 496 0022	Futures Traders: Save on Every Trade
79 (MD) 5 35 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	Instand (92) 48,93 9.176 8.037 2.881 1 2430 2.662 Italy (L) 2.013 0.378 0.331 0.098 0.041 100. 0.110 Notheriands (F1 18.38 3.447 3.018 0.0844 0.376 913.1 1 Norway (NK1 47.67 8.978 7.864 2.329 0.978 2378 2.604 Portugal (Es) 20.06 3.761 3.294 0.876 0.410 996.2 1.081 Spain (Piz) 24.74 4.639 4.063 1.203 0.506 1229 1.346 Swoden (SKr) 46.06 8.639 7.566 2.241 0.941 2288 2.508 Switzariand (SFr) 25.25 4.735 4.148 1.229 0.515 1224 1.374 UK (C) 47.17 8.468 7.748 2.295 0.964 2343 2.566	$\begin{array}{cccccccccccccccccccccccccccccccccccc$	Union FUTURES AND OPTIONS TRADING Clearing and Execution Service 24 hrs Coaliset: Dances Dans Tol: + 44 171 329 3030 Fuz: + 44 171 329 3919	 Fast fills. Access to worldwide markets. 24 hour, call-free service. Institutional rates for currency conversions. Full range of trading support-free Nearly \$500 million in customer deposits
	US (5) 31,53 5,973 5,179 1,534 0,644 1566 1,775 Jappan (Y) 29,99 5,624 4,926 1,459 0,813 1490 1,631 Eccu 38,80 7,239 8,340 1,876 0,789 1917 2,100 Denish Kroner, Franch Franc, Norwegian Kroner, and Swedish Nonor per 10; Belgian Franc, Yen, Eo D-sMARK: FUTURES (IMM) DM 125,000 per DM Open Latent Change High Low Est. vol Open int.	8284 143.5 121.2 8.510 1.188 0.638 1.296 0.951 100. 0.777 8.063 192.5 156.1 8.380 1.529 0.818 1.669 1.224 128.7 1	Union MARGINED FOREIGN EXCHANGE TRADING Fast, Competitive Quotes 24 Hours Contact Merita Donoven Tet +44 171 825 0400 Pinc +44 171 320 3019	Geposits inner today lowing sitk oldelay for sitk of loon protor that for count for the site of the site of low system in the count of append by incident is Company, applied by Sil Ziesen Best 200 LIND-WALDOCK & COMPANY
	Jurt 0.6548 0.6538 -0.0005 0.6549 0.6520 27,155 86,527 Sap 0.6574 0.6575 -0.0007 0.6577 0.6559 55 3.584 Dec - 0.6624 - 4 589 SWIBS FRANC FUTURIES (MM) SFr 125,000 per SFr Jun 0.6090 0.6046 -0.0026 0.8081 0.9013 18,712 43,407	Jun 0.9577 0.9564 -0.0019 0.9579 0.9540 23,852 64,656 Sap 0.9675 0.9677 -0.0020 0.6677 0.9684 845 2,632 Dec - 0.9810 2 293 1,105 STERLING FUTURIES (MM) 262,500 por £ Jun 1.5070 1.4950 -0.0118 1.5070 1.4948 14,839 60,898	Futures & Options Stecurities and Facets Limited TEL 0171 417 9720 State 100 101 111 9720 TEL 0171 417 9720 TEL 0171 417 9720	Alliance Leicester Alliance & Leicester Building Society
	Sep 0.8120 0.8120 -0.0025 0.8123 0.9090 140 1,753 Dec - 0.8200 -0.0021 - 0.8200 7 684	Sep 1.4970 1.4944 -0.0110 1.4970 1.4800 78 217 Dec - 1.4930 -0.0110 - 1.4900 1 34 EMS EUROPEAN CURRENCY UNIT RATES May 1 Ecu cen. Rate Change % +/- from % spread Div. rates anglestist on day cen. rates weakerst ind.	C A bel war of Field Markets Bat of Bar andre andre O Datakit FROM \$570	Bank of Communications (The Development had of the Republic of Chinal U-S. \$100,000,000 Floating Rate Notes due 2001 [For the interest Period 30th April, [For the interest Period 30th April, [For
	$\begin{array}{c c c c c c c c c c c c c c c c c c c $	Spain 162.493 158.656 -0.32 -2.36 3.54 16 Methentandas 2.15214 2.13737 +0.00059 -0.69 1.79 5 Betghum 39.3900 39.2705 +0.0416 -0.32 1.42 2 Austhin 13.4383 13.4402 -0.0105 0.07 1.06 -0 Portugal 195.792 195.756 +0.224 -0.02 1.11 0 Germany 1.81007 1.91132 +0.00149 0.01 1.08 -0 France 8.40608 6.45084 +0.00557 0.70 0.39 -6 Determent 7.28580 7.36562 +0.00605 1.09 0.00 -7 Integend 0.792214 0.00537 0.70 0.39 -6 Determent 0.728214 0.000537 1.09 0.00 -7	O ARTANESS 19 pro of daily escuel fature data as the major markets the bander of the Bandler Vedd, 78 First Sheet, Landon (564' 1977, 781: 441 (9) 177 1942 4083 (WANT TO KNOW A SECRET? The LD S. Gann Seminar will show you how the markets REALLY	1996 to 3 hr October, 1996 the Nores will carry a Nace of Interest of 5.6629% per annuam, with a Coupon Amount of U.S. \$7.235.42 per U.S. \$250,000 Nore. The relevant interest Payment Dare will be Star October, 1996. Bankers Trust Company,London Agent Bank
	Discount Marter dabs 6 ³ g - 6 6 ¹ g - 8 UK clearing bank bise lending rate 8 per cent from March 6.1996 Up to 1 1-3 3-6 6-9 9-12 month month month months months months Certs of Tax dep. (2:00,000) 2 ¹ 2 5 ¹ 2 5 5 4 ³ 4	NON ERM MEMBERS Greace 292.887 304.030 +0.239 3.81 -2.62 - tasky 2106.15 1952.75 -9.04 -7.28 9.04 - UK 0.786652 0.828180 -0.002267 5.28 -3.08 - Exa central mass set by the Europeen Commission. Currenties are in descending relative strength. - - - Percentage changes are for Early a positive change denotes a week currence. - - -	work. The amazing trading techniques of the legendary W.D. Gann can increase your profits and contain your losses. How? That's the secret. Book your FREE place. Phone 0171 588 5858. SPREAD BETTING ON OVER EIGHTY MARKETS We at open a laster instal ad considering of the secret secret.	
	Ave. bender rate of diffocurt on Apr 25, 5 39405; 5 Columbia III 20, 5 24005; 5 Columbia III 20, 5 2500, 7000 Columbia 10, 20, 20, 20, 20, 20, 20, 20, 20, 20, 2	ratio batween two ponadic the percentage difference between the actual number and control ratio for a currency, and the moulmum permitted percentage deviation of the currency's methor table from its Ecu current rate. 1774/2015 Serving and Italian Line suspended from ERA. Adjustment calculated by the Financial Times. 18 PHOLEDISCHER SECTS OFTICHES 251,250 (cents per pound) Strike	betrag * Huns 7.30m - 9.19m. We are able to open account what store days Carmer poor Channel 4 Tekens rad 6477 2003 3467. * Stateset to use her.	MARGINED CURRENCY DEALING CALL TOLL-FREE Astria 0560 6446 Derwark 5001 0530 Frate of 1800 6446 Derwark 5001 0530 Frate of 1800 7975
	Sep 93.7 93.89 +0.02 93.90 93.85 10698 59444 Dec 93.44 93.56 +0.02 93.57 93.51 12672 55684 Mor 93.10 93.13 +0.02 93.14 93.07 6259 46303 Jun 92.11 92.73 +0.02 93.14 93.07 6259 46303 Jun 92.11 92.73 +0.07 92.73 92.89 2864 37752 Also traded on APT All Open interest figs are for previous day. 950.000 points of 100%	1.480 2.51 2.79 3.11 0.04 0.35 0.72 1.480 1.58 2.11 2.51 0.11 0.62 1.05 1.500 0.78 1.48 1.90 0.21 0.99 1.45 1.510 0.26 0.99 1.41 0.69 1.50 1.97 1.520 0.02 0.62 1.02 1.45 2.12 2.52 Previous day's voit, Cate 2,600 Puts 3.711. Prev. day's open int., Cate 159,647 Puts 174,978 144,978 144,978 Extraction control 1.532 1.542.640 Puts 3.711. Prev. day's open int., Cate 159,647 Puts 174,978 144,978	 Disclosed Commissions The rate we trade is The rate you get the rate you get stollars or herein winderse TEL 0171 638 2028 	Flexible managed accounts Norway 8001 1181 Portugal 0505 493561 Spain 900 994914 Swetcen 02079 1071 Swetcen 02079 Swetcen 02079 1071 Swetcen 02079 Swetcen 0207 Swetc
	Strike Putns Putns Putns Price Jun Sep Dec Jun Sep Dec 9400 0.10 0.13 0.14 0.07 0.24 0.58 9425 0.02 0.05 0.06 0.24 0.41 0.77 9450 0.01 0.02 0.04 0.48 0.63 0.98 Ext. vol. tobal, Calls 6590 Putn 2248, Previous day's open int., Calls 134714 Puts 118194	Open Latest Change High Low Est. vol Open Int. Jun 94,50 94,49 -0.02 94,51 94,48 58,756 374,752 Sep 94,28 94,27 -0.02 94,28 94,25 73,420 350,810 Dec 93.96 98.95 -0.02 93.96 98.92 168,504 334,807	OFFSHORE CONTPANIES	FAST 64 KBIT SATELLITE TECHNOLOGY
	BASE LENDING RATES	Jun 94.95 94.97 -0.01 94.97 94.96 \$18 9,696 Sep 94.75 94.75 -0.02 94.75 94.74 226 5,240 Dec - 94.50 -0.02 - 94.50 7 876 Al Open Interest figs. are for provided day ■ EUROBIARTIC OPTIONS (LIFFE) DM/Im points of 100%	Petroleum Argus Daily Oil Price Reports Sit the spot price information you require for Global Grude and Products markets — Petroleum Argus	FOR COMPLETE REAL-TIME DATA OF THE US AND EUROPEAN EXCHANGES FOREX, FUTURES, OPTIONS, EQUITES, NEWS
	Adama & Corpeny Buncan Lawrie 6.00 Adama & Corpeny 6.00 Adama & Corpeny 6.00 Adama & Corpeny 6.00 Alled Trust fank 6.00 Alle Bank 5.00 Bank of Bunk 6.00 Bank of Bunk 6.00 Bank of Spate 6.00	Strike CALLS PUTS PUTS Price Mmy Jun Jul Sep Mmy Jun Jul Sep 9675 0.09 0.11 0.18 0.21 0.01 0.05 0.09 9700 0.01 0.02 0.05 0.08 0.19 0.13 0.21 9725 0 0 0.01 0.02 0.42 0.42 0.38 0.40 Ea. vol. totat, Calls 1203 Puts 1495, Previous dary open int., Calls 344867 Puts 356652 III EURO SWASS FRANC OPTIONS (LFTE) SFr 1m points of 100% Strike PUTS PUTS Price Jun Sep Dec Jun Sep Dec Jun Sep Dec	CALL NOW for a FREE TAIAL HE IT ISSS 2732 Futures, Options & Correndex with direct access to exchange floors Cendence Gamo Pl. 0171 702 1991 Fax: 0171 480 6115 Bagelene Ly 2019	The FT CUIDE TO WORLD CURRENCIES, published in Monday's newspaper and covering over 200 currencies, is now available by disting the Shlowing instable from the keyped or hundest of your fax machine. 6091 437 681, Calis are changed at 39phula chargo rate and 49phula at all other times. For service outside the UK please telephone +44 171 873 4378 for details on Chyline International.
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	FINANCIAL TIMES THURSDAY MAY 2 1996
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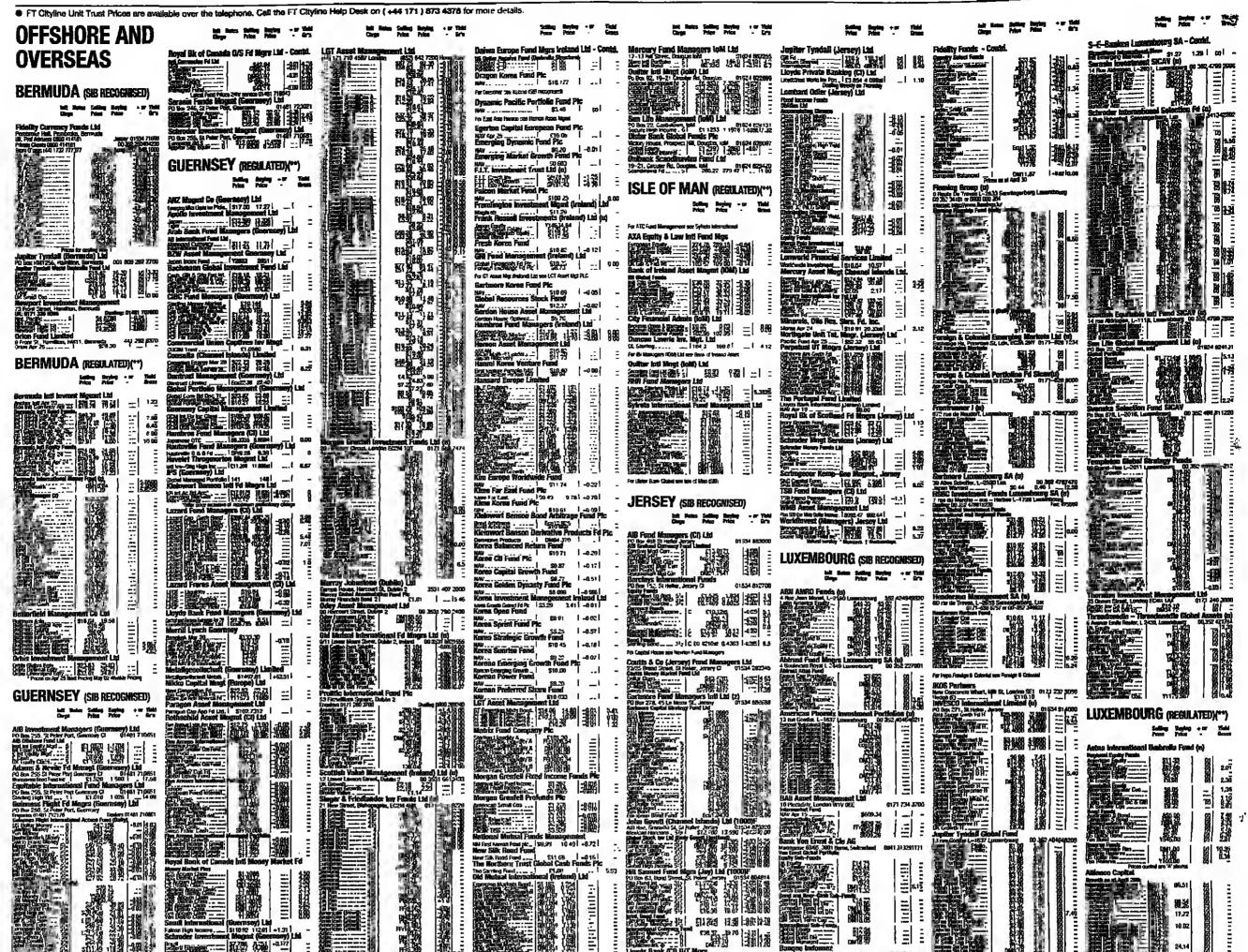
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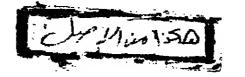
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FINANCIAL TIMES THURSDAY MAY 2 1996

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LONDON STOCK EXCHANGE

Struggling Footsie takes another look at 3,800

By Steve Thompson, UK Stock Market Editor

MARKET REPORT

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The closure of much of continental Europe for the May Day holiday, plus the impending UK local elections and US non-farm payroll report for April, made for a quiet trading session in UK equities. But it was the lack of any of the

much heralded takeover activity that continued to take its toll on the market. The FT-SE 100 index took a cou-

ple of hard looks at the 3,800 level, but always rallied well and eventually finished the day a net 11.9 off at 3.806.0.

left the leaders well behind since the start of the year, lost more of their shine, with the FT-SE Mid 250 index posting its third consecutive retreat and ending the day 11.7 down at 4,540.1. A handful of profits warnings. notably from Courtaulds Textiles

and General Accident, the composite insurer, gnawed away at the market's confidence, as did some more downbeat economic news, in the form of the Purchasing Manager Index for April. The index fell for

the third month running. The news from across the Atlantic, where the National Association of Purchasing Management pub-

lished their survey for April, ini-Second-line stocks, which have

tially depressed Wall Street, where the Dow Jones Industrial Average came under pressure. But sentiment there quickly picked up and the Dow was showing a 20-point-plus gain an hour after London closed The NAPM details saw US Trea-

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sury bonds move up sharply after a difficult start, helping UK gilts to end the day virtually unchanged, in spite of the pressure on the pound. Commenting on the day's events in the market, the head trader at one European broking house said sentiment in London remained fragile. "The market expects the Conservatives to get a tanning in the elections and is looking for a fur-

ther big rise in employment numbers in the US, but it is a question of how much in both cases

On the elections he said the market would probably cope quite happily with losses of up to 800 local council seats, but that many more than that would trigger renewed and damaging stories about Mr Major's leadership into the general election.

Turnover in equities at 6pm reached 790.4m shares, a figure that surprised dealers but which was heavily weighted to non-FT-SE 100 stocks that accounted for more than 60 per cent of the day's business. And there was plenty of activity in the market's "penny stocks".

Around the individual sectors the composite insurers provided plenty of interest, with General Accident hard hit by the warning that profits would be badly affected by tha weather which hit the company's main markets, the UK and North

> America, over the winter. The day's biggest casualty was Courtaulds Textiles, which plummeted more than 10 per cent in the wake of the shock profits warning. The ntilities areas, on which many speculators had pinned high hopes of more takeover bids developing this week, were given a mauiing. Some market observers maintained, however, that fresh takeover action is imminent.

Equity shares traded FT-SE-A Alf-Share Index Tomover by volume (million). Excluding

FINANCIAL TIMES THURSDAY MAY 2 1996

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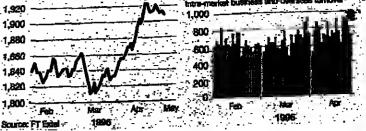
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FT-SE 100 INDEX FUTURES (LIFFE) \$25 per tuli index point

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High

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3834.0

3859.0

Low

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2.1

3857.0

Grid mystery deepens

The mystery over Hanson's sale of 210m shares in National Grid deepened yesterday as a buyer failed to materialise.

Early speculation suggested that HSBC James Capel, which took on the 12.5 per cent stake at 192.5p a share in the form of a bought deal, had a buyer lined up but lost it at the last moment.

However, an announcement late on that Capel had hedged its risk with a subsidiary of Olayan Group, an Athensbased investment group, sparked a rumour that Hanson had not rid itself of the shares at all.

Dealers suggested that the international conglomerate may have sold the stock with an option to repurchase. This would enable it to raise £405m in order to reduce its debt. And it would have allowed Hanson to benefit from any bid-related buying in the future.

Flesh was added to the bare bones of the rumour by a link between Olayan and Hanson. Mr Niven Duncan, a non-executive director of Olayan, was until September last year a director of Eastern Group, the regional electricity company which Hanson took over. However, Eastern said the link was purely coincidental and Hanson said it had no option to repurchase the stock.

Late yesterday, National Grid said Capel beld 12.2 per cent of Grid shares, suggesting

to some that it might have taken and sold 0.3 per cent of the company as commission for the deal. National Grid shares ended the day 5% lower on turnover of 6.5m, whils Hanson hardened to 197%p.

Builders retreat

Klainwort Benson turned

less positive on housebuilding shares, sparking a minor shakeout for the sub-sector. Housebuilders have had a strong run this year, with Barratt outpacing the market as a whole by 14 per cent over the past month and Beazer notching up 10 per cent relative growth. Kleinwort moved from overweight to neutral and pro-

voked clear profit-taking. Both Barratt and Beazer retreated more than 2 per cent. The former came off 61/4 to 263p and Beazer ended 5 lower at 204p in 4.4m traded, Wilson Bowden shed 8 to 455p.

Courtaulds hit

Hard pressed textile analysts were left shell-shocked by the latest announcement from Courtaulds Textiles.

Just when they were beginning to think that the sheen might be about to return to the sector after a period of savage downgrades and heavy destocking, Courtaulds issued a profits warning. The company said its losses in its US operations would drag down group profits in the first half. Analysts expect profit estimates for the current year to be cut to between £40m and £41m from £47m previously.

Courtaulds Textiles shares tumbled 45 to 373p, while Coats Viyella relinquished 7 at 185p.

Shares in Rank Organisation moved against the poor market trend, adding another 6% at 539%p on brisk buying following Tuesday's lunch with a number of influential brokers, unside." the first of three this week hosted by the group's new chief executive.

Rank ahead

One broker who attended the meeting said: "The tone was upbeat and positive, though it has to be said that we shall have to wait until the interim figures in August to get the full picture." Volume yesterday rose to

6.2m shares, with Henderson Crosthwaite said to hava accounted for a large slice of the day's trading. The market was bracing

itself for a poor set of interim figures today from food retailing group Kwik Save. Nervous trading left the shares trailing 5 at 468p. Dealers said they

FINANCIAL TIMES EQUITY INDICES

	May 1	Apr 30	Apr 29	Apr 26	Apr 25	Yr ago	"High	LOW
Ordinary Share	2831.3	2838.6	2835.1	2862.3	2854.4	2482.9	2885.2	2696.
Ord, div, yield	3.92	3.91	3.91	3.88	3.88	4.25	4.06	3.7
P/E ratio net	15.67	16.71	16,70	18.94	18.78	16.51	17.25	15.9
P/E ratio nil	16.44	16.49	16.47	16.61	16.54	16.30	17.08	15.7
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hardening 3 to 535p on hopes

for improved cross-Channel

ferry margins should the group

manage to negotiate a marger with Swedish rival Stena.

Between them P&O and

Stena operate nine of the dozen

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Filses and falls"		52 Week, highs	and lows	LIFFE Equity optic	10.04
Total Rises	694	Total Highs Total Lows	231	Total contracts Calls	17,271
Total Falls	604	Total Lows	13	Calls	6.118
Same	1,4/4			Puts	11,152

expect profits to fall by short-haul Channel ferries. between 20 per cent and 27 per According to one London anacent to about £45m, and one lyst, a merger could see comanalyst added: "Let us just say bined capacity go down by few people expect the company between two or three ferries. results to surprise on the Glaxo Wellcome continued its recovery with an advance of The general feeling in the 12 to \$18p as a recent product

market remains that Kwik approval gave some counter-Save has continued to lose balance to worries over Zantac, market share to the superthe company's key anti-ulcer stores and that margins at the group remain under pressure. The food retailer is expected product SmithKline Beecham ended 13 higher at 717%p in response to report a decline in like-forto an upbeat presentation to like sales. Talk in the market analysts in Belgium about its

also suggested that the comvaccines husiness and optipany is experiencing difficulmism that the US Food and ties in the distribution of its Drug Administration would this week approve Kredex, its Transport leader P&O outheart drug. National Westminster Bank manoeuvred the market trend,

rose 7 to 619% as some brokers reacted to the cost savings which should be generated by the bank's announcement that it will reduce its branch network by 15 per cent. ABN Amro Hoare Govett moved its stance on the stock to hold from overvalned and apparently set a 650p target price. Kingfisher dropped 10 to 585p after a marketmaker was left holding a large line of stock and other marketmakers

marked the price down. W.H. Smith firmed 5 to 500p with renewed interest from buyers anticipating the group's strategic review, due this month. One analyst speculated on the possibility of a rights

issue. News of slowing demand and a big share placing left Eurodis Electron trailing by more than 17 per cent.

The announcement that Swiss utility Elektrowatt was to place its 40 per cent shareholding in Eurodis with institotions dashed market hopes for a bid for the electronic components supplier. The shares came off 49 to 233p.

MMT Computing jumped 86 to 458p following a strong interim profits statement. In the drinks sector, Allied Domecq gave up 12% to 501p

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that the group had lost the agency rights for Lanson champagne, a high profile brand. One analyst said that while Allied was playing the loss down, the market adopted a much more bearish stance. Water stocks dipped on drought worries and uncon-

following the announcement

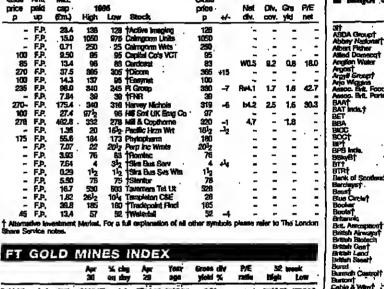
firmed talk that SBC Warburg had placed 2.5m shares in Yorkshire Water at 660p a share for one institution keen to lighten its load. Yorkshire fell 15 to 658p.

In the electricity sector, Midlands fell 10 to 380p in spite of late whispers that a US buyer was preparing to pounce fol lowing the government's veto

of the bid hy PowerGen. MARKET REPORTERS: Peter John, Joel Kibazo,

Jeffrey Brown, Lisa Wood.

LONDON RECENT ISSUES: EQUITIES lssue Amit Mitt, price paliti cap p up (2m.) Close price P 1095 High Low Stock



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FUTURES AND OPTIONS

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5-A 350	1925.9		1931.7				3.77	2.06		32.80	1001.76
5-A 350 Higher Yield 5-A 350 Lower Yield	1851.3		1855.3				5,01	1.90		39.85 26.00	1286.26
E SmellCap	2231.70					1790.63	2.89	1,80		22.72	1828.90
E SmallCap at Inv Trusts	2223.94					1768.24	3.08	1.89		23.64	1828.29
A ALL-SHARE	1909.39	-0.3 1	814.61	1911.39	1921-08	1598.05	3.70	2.05	16.52	31.46	.1612.74
T-SE Actuaries All-		Day's	1.			Year	Div.	Net .	P/E)		
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All Exploration & Prod(15)	2491,67			2520.65			2.10	1.58		32.05	1498.95
EN INDUSTRIALS(275)	2158.62					1903.77	3.93	1.90		31.48	1176.63
uiding & Construction(34)	1250.34					967.37	3.29	1.79		16.64	1045.39
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Znernicale(25)	2569,87 1809,54			2575.36		2314.57	3.85 5.70	1,94	16.76		1214.65
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inginaering(71)	2493.04					1902.82	3.06	2.48		27.43	1509.44
Engineering, Vehicles(13)	3018.06	-0.5 30	333.84	3040.80	3084.93	2285.31	3.63	1.92		48.83	1564.89
aper, Pokg & Printing(28)	2790.93			2796.68			3.67	2.02		39.74	1181.56
extiles & Apparol(19)	1445.93		_	1480.11	-		4.88	1.61	_	27.38	883.23
CONSUMER GOODS(80)	3561,37 2850,53			2662.92			3,93 4,85	1.65		70,48	1318.69
Food Producers(23)	2497.26			2509.42			4.14	1.62		55.04	1132.00
ousehold Goods(15)	2735.11	-0.4 2	746.04	2726.14	2720.42	2563.06	3.63	2.41	14.29	51.26	1047.52
eeith Care(20)	2063,20	+0.6 20	50.37	2019.25	2003.31	1737.10	2.57	1.88		12.20	1246.55
harmaceuticate(12)	5073.15			4971.48			3.36	1,86		81.77	1723.13
obacco(1)	4290.50	_	_	4167.67	_	_	5.92	2.00		_	1077.74
ERVICES(254) .	2528.12 2963.36			2528.78 2964.68			2.79	2.05		31.92	1313.10
istributors(32) sisure & Hotels(23)	2863.36			3245.75			2.81	1.72	23.62 1	35.69	1100.50
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staliens, Food(15)	1947.30	-0.1 18	49.04	1641.71	1944.94	1013.79	3.84	241	18.52	18.54	1231.69
allers, General(43)	2075.98			2084.54			2.91	2.21		18.09	1181.70
wertes, Pube & Rest (24)	3172.18			3177.80			3.11	2.08		15.93	1512.71
oport Services(60) nepon(21)	2347,04 2437,85			2328.85			2.06	2.59		16,45 26.66	1488.15
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as Distribution(2)	1563.75			1592.92			7,66	1.38		0.00	784.58
elecommunications(7)	2141,44	-0.8 21	59.81 2	2152.86	2172.35	2091.17	3.94	1.75		0.15	869.34
ater(12)	2148.53			2181.32			5.68	2.59	8.50	3.61	1166.13
ON-FINANCIALS(067)	2042.02			2044.34		_	3.68	1.94	17.53	31.61	1547.38
TINANCIALS(105)	2854.46			872.45			4.15	2.65	11.49		1237.86
lanks, Retai(8)	3901,46			3915.43			3.98	2.90			1283.04
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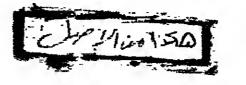
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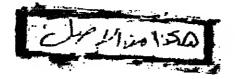
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NEW YORK STOCK EXCHANGE COMPOSITE PRICES

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WORLD STOCK MARKETS

FINANCIAL TIMES

EUROPE

Dutch

shares

higher

With most of the Continent's

markets closed for the May

Day holiday, attention moved

to AMSTERDAM, where the

market nudged to yet another

record high as dollar strength supported equities.

555.72, and also struck an intra-

day high of 556.94 before profit-

taking took hold. The financials were popular,

with ING and ABN Amro pull-

ing the market along with

them. The stocks improved a

respective Fl 1.50 and Fl 1.20 to Fl 133.80 and Fl 89.90.

Trade was fairly light and

many brokers were awaiting

first-quarter results from Uni-lever and DSM today. DSM

COPENHAGEN was lifted by

good trade in Sophus Berend-

sen and the stronger dollar.

However, many analysts thought profit-taking was now

in store in the days ahead. The

eased F13 to F1172.

The AEX index rose 1.12 to

AMERIC/ **Technology stocks** push Nasdaq forward

Wall Street

36

Technology shares in the Nasdaq composite continued their upward streak in midsession trading yesterday, while other sectors posted more modest gains as the bond market strengthened, writes Lisa Bransten in New York.

At 1 pm the technology-rich Nasdaq composite was well on its way to a tenth consecutive record close with a gain of 8.95 at 1,199.47. The Pacific Stock Exchange composite added 1.1 per cent.

Leading the charge were Internet related stocks that got a boost on Tuesday from news that MFS Communications, a US specialty telecommunications company, and UUNet Technologies, an Internet access provider, had agreed to merge. UUNet, which rose more than \$10 on Tuesday, added \$4% or 7 per cent, bringing the shares to \$63. Other Internet access companies also posted a second day

of gains. PSINet rose \$2% or 16

On-Line Communication Services gained \$4% or 18 per cent at \$40% American Stock The

Exchange/Interactive Week index of Internet-related issues gained 1.3 per cent in early trading Gains were more modest on

the Dow Jones Industrial Aver-age and other, broader indices. At 1 nm the Dow was up 25.29 at 5,594.37, the Standard & Poor's 500 put on 2.21 at 656.38 and the American Stock Exchange composite climbed 2.94 to 593.84. Volume on the NYSE came to 233m shares.

Bonds were supporting the equity market as they reversed some of the week's losses in spite of a gain in the National Association of Purchasing Management's figure on manufacturing activity. Chrysler added \$% at \$63% after announcing car sales fig-

ures that showed a continuation of its strong start this year. Car sales advanced 22 per cent and light truck sales were 40 per cent higher. Those

r cent to \$16% and NetComm results stand in stark contrast to a poor start for the car market made last year. Uniroyal Chemical moved up

\$3% or 23 per cent to \$14% on news that it had agreed to merge with Crompton & Knowles for about \$15 a share in stock. Crompton & Knowles added \$% at \$15%. Discreet Logic lost more than 40 per cent of its market

value as the shares plunged \$611 to \$911 after the video effects company said it expected to turn in a "significant" loss in the third quarter. Canada

Toronto was modestly higher in midsession trading, with the TSE-300 composite index up 13.59 at 5,160.06. Most of the 14 sub-groups were higher, with the golds group leading the advance, up nearly 1 per cent. Real estate stocks had made 0.8 per cent and the transportation group was up 0.5 per cent. Energy shares were going in the other direction, off 0.6 per cent.

EM	RGING	MARKETS	IFC WEE	KLY INVEST	ABLE PRIC		5	DKr1,000 to a respectiv
			Dollar terms			ocal currency		DKr131,000 and DKr188,000.
Market	No. of stocks		% Change over week	% Change	Apr. 26 1996	% Change	% Change on Dec '95	Sophus Berendsen climbo DKr15 to DKr739. Tele Dar mark lost DKr13 to DKr284
Latin America	(247)	518.34	+0.1	+9.9				128,000 shares traded.
Argentina	(31)	878.93	+0.6	+9.7	538,919.75	+0.6	+9.7	TEL AVIV moved sideway
Brazil	(68)	333.86	-0.4	+8.4	1,239.30	-0.3	+11.6	as investors waited for the Ma
Chile	(43)	734.03	+1.7	-1.8	1,193.79	+1.5	-2.1	29 elections. The Mishtani
Colombia ¹	(15)	631.30	+5.2	+5.6	1,178.15	+5.3	+12.4	index edged up 0.14 to 204.16
Maxico	(65)	539.02	-1.8	+18.9	1,717.70	-2.0	+14.1	turnover of only Shk61m.
Penu²	(20)	211,75	+5.1	+7.4	307.44	+5.4	+10,7	The most active stock wa
Venazuela ³	(5)	485.47	+0.2	+45.2	5,218.85	+0.3	+99.8	Elite Industries, which surge
Asia	(631)	271.67	+0.6	+17.0				Fine moustries, which surge
China*	(23)	57.13	-1.0	+5.6	60.06	-1.0	+5.7	4.7 per cent to Shk1,165 c
South Korea®	(145)	135.75	+1.1	+7.8	139.01	+1,1	+8.3	turnover of just Shk3.8m. Eli
Philippines	(35)	287,19	+1.2	+10.8	363.08	+1.2	+10.4	reported a net loss in the la
Talwan, China*	(83)	138.65	+1.2	+22.9	141.52	+1.3	+22.5	quarter of 1995 of Shk47.2n
India ⁷	(76)	105.80	+1.8	+31.7	128.50	+1.9	+28.0	against a deficit of Shk3.1m
Indonesia"	(44)	129.35	-0.1	+17.8	163.60	-0,1	+20.1	year earlier. Traders said that
Malaysia	(123)	327.97	+0.7	+21.0	301,80	+0.6	+18.8	the loss was the result of
Pakistan ^e	(25)	264.11	+5.9	+8.8	417,95	+6,2	+10.9	
Sri Lanka*	(5)	. 111.24	-2.0	+6.8	132,20	-1.8	+0.4	one-time charge and the
Thailand	(72)	374.41	-1.8	-0.4	375.84	-1.8	-0.0	expected the company to pu
Euro/Mid East	(238)	142.94	-2.2	+0.9				lish improved results in 1996.
Greece	(47)	242.16	-4.7	+0.3	398.73	4.0	+3.0	
Hungary	(8)	149.02	+1.1	+51.4	. 265.56	+2.8	+64.1	FT-SE Actuaries Share
Jordan	(8)	178.01	-1.0	-3.6	265.74	-1.0	-3.8	Though Househoo onare
Poland	(22)	644.88	+2.4	+51.3	1,077.51	+3.5	+62.7	May 1
Portugal	(26)	121.60	-2.0	+5.0	130.78	-0.8	+10.0	Hourty changes Open 10.30 11.
South African	(63)	238.45	-2,8	-7.6	217.62	+0.7	+12.0	
Turkey ¹⁴	(54)	148.74	-0.6	+42.3	5,213,88	+0.1	+74.4	FT-SE Eurobrack 100 1680.72 1681.28 16
Zimbabwe ¹⁵	(5)	355.09	+1.6	+29.3	514.44	+1.7	+36.4	FT-SE Encounteredk 200 1728.57 1731.15 173
Composite	(1116)	304.95	-0.2	+10.6				Apr 30

Indices are calculated at and-week, and weekly charges are percentages increment from the previous Fiday. Base dails: Dec 1999-700 except the which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Am 5 1990; (4)Dec 31 1992; (5)Am 3 1992; (6)Am 4 1991; (7)Nov 6 1992; (8)Am 2 1990; (8)Am 1.3 Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13:Dec 31 1992; (14)Aug 2 1993; (15)Aug 2 1993.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FT-SE international Umited, Goldman, Sacha & Co. and Standard & Poor's. The Indices are compiled by FT-SE international Umited, Goldman, Sacha & Co. and Standard & Poor's. The Indices are compiled by FT-SE international Umited, Goldman, Sacha & Co. Goldman Sachs in conjunction with the Faculty of Actuaties and the Inst NATIONAL AND REGIONAL MARKETS ---- DOLLAR INDEX -MONDAY APRIL 29 1996

US Day's Pound Local Local Gross US Pound Dollar Change Starling Yen DM Currency % chg Div, Dollar Starling Yen Index % Index Index Index on day Yield Index Index Index DM Currency 52 week 52 week ago Index Index High Low (approx) nder of lines of stock

ASIA PACIFIC Nikkei declines below 22,000 *

Tokyo

Uncertainty over the course of the yen weighed on investor sentiment, and the Nikkei average declined 1 per cent. falling below the 22,000 level for the first time in seven trading days, writes Emiko Tera-zono in Tokyo.

The Nikkei 225 index receded 226.29 to 21.815.01 after moving between 21,772.71 and 22,087.32. The index closed below 22,000 for the first time since April 19 on selling triggered by a fall in futures prices. Bargain hunting by domestic institutions provided some support for the index, bnt their purchases remained limited ahead of the five-day weekend starting tomorrow.

Volume was 447m shares, against 402m. Technical trad-ing dominated activity as most domestic and foreign investors remained inactive. Investment trusts actively plsced indexlinked sell orders, while individual investors traded speculative favourites. The Topix index of all first

KFX 20 index gained 0.48 at 114.30 in turnover of DKr806m. section stocks fell 14.81 to A firmer dollar helped to 1,697.61 and the Nikkei 300 index gave up 8.17 to 313.79. Declines led advances by 696 to push the index higher, with A.P. Moeller's D/S 1912 and D/S Svendborg both rising DKr1,000 to a respective 386, with 142 issues unchanged. Dealers sold futures positions to cut their losses. Arbi-Sophus Berendsen climbed DKr15 to DKr739. Tele Dantrage sales linked to the Topix index mounted in the aftermark lost DKr13 to DKr284 in noon as the Topix based futures market fell below the TEL AVIV moved sideways underlying cash index.

as investors waited for the May In London the ISE/Nikkei 50 29 elections. The Mishtanim index put on 0.88 at 1,470.51. index edged up 0.14 to 204.16 in Speculative trading led activturnover of only Shk61m. ity. Janome Sewing Machine, The most active stock was the most active issue of the Elite Industries, which surged 4.7 per cent to Shk1,165 on day, rose Y27 to Y443, NHK Spring, a leading suspension turnover of just Shk3.8m. Elite spring maker, gained Y13 to Y646 and Koito Mfg. a car parts maker, advanced Y31 to Y1,000. reported a net loss in the last quarter of 1995 of Shk47.2m, against a deficit of Shk3.1m a Uncertainty over currency year earlier. Traders said that fluctuations depressed hightechnology stocks. Toshiba the loss was the result of a one-time charge and they dropped Y11 to Y803 and NEC expected the company to pub-lish improved results in 1996. lost Y20 to Y1,310. Car makers also turned down, with Toyota

FT-SE Actuaries Share Indices

870044	May 1					π	TE EUR	OPEAN	SERIE
	Hourly changes	Open	10,30	11.00	12.00	13.00	14.00	15.00	Class
1	FT-SE Eurotrack 100 FT-SE Eurotrack 200	1680.72 1728.57	1681.28 1731.15	1690.97 1729.20	1681.27 1729.10	1681.38 1727,88	1680.99 1729.90	1680.08 1727,60	1679.8 1728.0
•	_		'Apr 30	Apr 2	9 4	pr 26	Apr 25	Арт	24
	FT-SE Enninack 100 FT-SE Euroback 200		1681,60 1728,15	1685.5		402.57 401.61	1684.54	· 1683	

lase value 1000 (26/10/90); Highliday; 100 - 1881,97; 200 - 1731,24 Lowitzy; 100 - 1679,47 200 - 1726,45, † Partial

Motor slipping Y10 to Y2,380 and Nissan Motor declining Y19 to Y865.

Hopes of a recovery in per sonal consumption lifted department stores. Mitsukoshi, the high street retailer, rose Y30 to Y1,190 and Sogo gained Y9 to Y570.

fell 152.37 to 23,592.40. Nintendo bucked the trend with a rise of Y100 to Y8,180, helped by a positive outlook for the company's 64-bit video games which are due to be launched in the summer

Roundup

HONG KONG was moderately lower as investors took profits following the market's gain of more than 200 points earlier in the week. The rate cuts in China were largely ignored. The Chinese central bank said late on Tuesday that it would trim its base lending rates to domestic banks by an average of 0.75 basis points and deposit rates by an averge of 0.96 basis points from Wednesday. The Hang Seng index fell

57.52 to 10,907.01 as turnover remained low at HK\$3.3bn. against Tuesday's HK\$3.6bn. Brokers noted that elthough China-related stocks made gains, most dealers were waiting for confirmation that the rate cut signalled the end of Beijing's austerity programme

mainland China companies surged 46.65 or 5.6 per cent to 872.35

ers; Tsingtao made 27.5 cents or 13 per cent to HK\$2.40, Shanghai Haixing surged 10.5 per cent to HK\$0.63 and Kunming Machine jumped 13 cents or 14 per cent to HK\$1.05.

Swire A shed HK\$1.25 to HK\$64.75 after its covered warrant issue and the sale of its local airline holdings to Chinese interests

Citic Pacific retreated 45 cents to HK\$29.95 following news that it had agreed to spend more than HK\$6bn to raise its stake in Swire's Cathay Pacific Airways division, up 40 cents to HK\$13.90. TAIPEI reversed an early rise as financials failed to support the overall market. The weighted index lost 20.14 or 0.3

shareholders a cash and scrip per cent to 6,114.14, off a ses-sion's high of 6,184.79. Turnalternative, valuing Azon shares at A\$2.21 based on over was T\$61.5bn, down from Pacific BBA's closing price of A\$2.97.

Paper and construction shares were hit hard: Fortune Construction slid T\$1.50 to T\$38,50. But transportation stocks rose on persistent hopes of direct links with China, with China Airlines up by the daily permitted 7 per cent limit to T\$38.50. in electronics, Acer climbed T\$2 to T\$61.

cents to A\$20.60. The oil and gas index closed JAKARTA ended higher in up 0.6 per cent, supported by a moderate trading as investors 13-cent rise in Woodside Petrobought selectively following leum to A\$7.49. The company price corrections over the last outlined expansion plans at its two sessions. The JSX index annual meeting on Tuesday. WELLINGTON lost ground rose 5.56 to 629.47. Advancing stocks led declining issues by in quiet trading as debt mar-62 to 42, with 41 shares unchanged and 93 untraded. ket weakness sidelined most investors. Volume was 60.8m shares, in

The yield on short-term 90turnover of Ro167.9bn. day bank bills has soared to Telekom was the major feaaround 9.57 per cent from levture, rising Rp75 to Rp3,950 on els of about 9.15 per cent in

company, moved ahead Rp50 to Rp800 on 1.6m volume on news

eased 10.05 to 2,143.13. Turnover was 20.4m shares

Analysts felt that high interest yields had been the main cause behind weakness in Telecom, which lost 2 cents at NZ\$6.16. Fletcher Forests Division finished a cent softer

DELHI was open for business as Bombay, Calcutta and Madras were closed for May Day, The index moved forward

Polyester and industrial yarn maker Century Enka strengthened 15.5 per cent to Rps2,378.15 on good results for the fiscal year 1995/96.

risen to Rps246.9m, from Rps76.6m a year ago, a figure

55 cents to A\$11.20, reflecting disappointment with its interim profits which were announced on Tuesday, Azon, a diversified industrial concern, rallied 28 cents to tive demand. A\$2.20 following an A\$2.10 a share takeover offer from

shut yesterday included Kal-aysia, Pakistan, South Koria, Srl Lanka, Singapore. and Thailand.

The Leading Edge in Asia Pacific

Monday's T\$87bn.

in Osaka, the OSE average

1m shares dealt. Pan Brothers, a textiles

The H share index of 18 Rp7,000.

H shares dominated the gain-

by 355 to 304, Turnover was 276.9m shares valued at A\$526.4m. Many brokers were waiting for today's release of current Among the major blue chips.

account data. ICI Australia, a chemical and paint manufacturer, tumbled

Pacific BBA. Pacific BBA, a maker of

automotive components and construction products, said that it was also offering Azon

that the government would give a tax incentive to the textile industry Barito Pacific, a timber group, surrendered Rp125 to Rp2,225 on news that the state-owned pension funds were to

reduce portfolio holdings in the company. On the foreign board, Astra International rebounded Rp25 to Rp3,475, Panin Bank slid

Rp75 to Rp2,300 and Semen Cibinong appreciated Rp100 to SYDNEY fell back margin-

ally, having languished in negative territory throughout the session. The All Ordinaries 5.22 to 878.83.

action at its factories.

Workers' Day. Other markets

hurt export and interest ratesensitive stocks, such as Telecom and Fletcher Challenge Forests Division. The NZSE-40 capital addex

mid-April. Brokers said the rise had

valued at NZ\$54.2m.

at NZ\$1.87.

index slipped 3.4 to 2,313.4. Share price falls outpaced rises

The company said on Tuesday that its net profits have

which was depressed by strike Reliance jumped Rps22.05 or

9 per cent to Rps266.70, with more than 17.6m shares traded as it attracted heavy specula-• Shenzhen and Shanghai were closed for International

Mining stocks were mixed,

with Western Mining climbing

15 cents to A\$9.43, and Plutonic

Resources, a gold miner, fall-

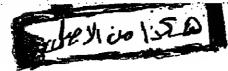
BHP, the steel, mining and

energy group, gained 12 cents to A\$19.71, while CRA shed 4

ing 32 cents to A\$7.43.

Thursday May 2 1996

	ou can't read index index index index index index right row tetrorod	0 0
Australia (80)	-0.2 3.91 208,47 205,83 138,40 165,67 177,00 210,85 162,68 172,83 0.1 1.89 187,45 184,20 123,94 148,26 148,15 199,28 168,11 185,40	
Bolgium (31)	0.1 4.06 209.06 205.43 138.22 165.34 181.65 216.81 186.06 194.97 -0.3 1.39 157.94 155.20 104.42 124.92 288.46 170.25 123.97 133.70	
Canada (99)	-0.2 2.35 162.72 158.90 107.58 128.70 160.58 162.75 134.14 135.52 -0.1 1.91 296.08 290.95 195.78 234.17 236.22 305.17 271.81 272.68	This appoint cannot appears as a matter of record only.
Finland (24)	1.8 2.68 161.17 178.03 119.78 143.29 183.28 278.11 171.73 201.61	
France (97)	0.6 2.98 198.39 194.95 131.17 156.91 159.86 196.39 167.70 183.03 -0.1 1.87 168.10 165.19 111.14 132.95 132.95 174.38 149.49 152.81	
Hong Kong (59)430.54 1.4 425.37 285.08 343.27 427.59 Ireland (16)	1.4 3.30 424,73 417,36 280,81 336,92 421,77 451,19 323,87 330,14	
italy (59)	1.2 2.19 82.37 80.94 54.46 65.15 96.10 83.87 87.22 75.63	
Japan (481)	-0.4 0.70 194.68 101.82 108.88 130.24 108.88 164.79 137.75 159.82 1.3 1.55 577.86 567.85 382.07 457.05 554.69 584.79 425.77 474.33	BSES
Mexico (18)	-0.4 1.33 1258,15 1236,32 831,83 995,07 10241,27 1313,61 791,99 1005,41	
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FINANCIAL TIMES THURSDAY MAY 2 1996 *

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TV SMART CARDS

The Sky algorithm that did not add up

An FT investigation by William Lewis raises questions over tax and management control within News group

For Professor Adi Shamir, one of Israel's foremost mathematicians, it was the breakthrough he had long worked for.

10

By 1980 he had, with others, developed a mathematical process, the Fiat-Shamir algorithm, which could be used in encryption systems to protect data.

The Weizmann Institute of Science, the academic institution in Israel where Prof Shamir worked, was keen to exploit the technology commercially through its

company, Yeda Research and Development.

At first it was thought the encryption technology would be used only for bank transactions, information distribution and other security applications. But it became clear that it had another incrative application - the restriction of access to atellite television broadcasts and pay television.

The success of the UK satellite broadcaster Sky TV - now 40 per cent owned by Mr Rupert Murdoch's News

Corporation and called BSkyB - is based on Prof Shamir's system, known as VideoCrypt.

Smart cards are a vital part of News group's business. The encryption technology used by Sky is also used by Star, News's Asian digital pay television venture, as well as in several other TV ventures.

More than 3m UK bomes hava satellite dishes and smart cards which enabla them to "unlock" channels they have paid for. Periodically a new set of cards is sent

out to subscribers in an attempt to beat off the threat of piracy.

In the UK, most satellite subscription services use the News group-owned VideoCrypt system. Cable companies argue that BSkyB's dominance of the VideoCrypt technology has become a gold mine.

The technology is also said to be vital to Mr Murdoch's plans to expand News group's TV interests worldwide. Analysts have pointed out bow smart cards would

of broadcast in countries such as China, where News group hopes to

expand. Alongside its evident success, however,

the exploitation by others of Prof Shamir's algorithm has led to allegations by the News Corp group of fraud and a long-running conspiracy. The News group of companies is involved in several legal disputes, including one in the High Court in London

Documents relating to the disputes,

enabled the Financial Times to piece together the short but turbulent life of News Datacom, the conduit for smart cards from News group to BSkyB and others.

News Datacom's history has involved offshore companies, disguised payments to executives, private investigators and secret telephone recordings.

The findings raise serious tax questions as well as questions about internal management control within News group over several years.

April 19

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News Det

News group says card sharps cost it £19m

ews International, the main UK subsid-iary of the News that it has lost more than £19m as the result of a long-running "conspiracy" involving suppli-ers of BSkyB'a satellite television smart cards, former employees and one of its own ex-directors.

The allegations

Details of the allegations have emerged in an action started in February in the High Court in London by four News group subsidiaries, including News Datacom, which arranges for the supply of smart cards on behalf of the group. The losses claimed by News

Datacom as a result of the "conspiracy" amount to £19,122,380, according to Mr Arthur Siskind, News Corp's general counsel

News group companies claim that "the price paid by News Datacom for smart cards has been artificially inflated" as a result of a long-running conspiracy between Mr Michael Clinger, a former director of a News group subsidiary, Mr Meir Matatyahn, a former employee of News group, Mr Bharat Kumar Marya, a businessman, and several companies associated with him called the Marva companies.

They also allege that Mr Marya and the Marya companies received excessive profits, secret commissions have been received by Mr Clinger and Mr Matatyahu, and NDSP [News Data Security Products which traded as News Datacom] and News Datacom Ltd [the News group company registered in be UK which took over NDSP's business in 1992] have been prevented from putting in place any alternative source of supply of smart cards. Mr Ian Rosenblatt, partner of Rosenblatt solicitors represent-ing most of the so-called Marya companies, said: "There are questionable motives for the litigation. We are defending it vigorously. Obviously any conspiracy is denied".

management decisions which left it wholly reliant on one group of auppliers for a crucial element of its TV interests. News group claims that its managers' attempts were largely thwarted by the con-spiracy. It admits that

attempts to obtain a second source of supply failed and that it was forced to suspend those attempts when its smart cards became hit by pirates' imitations and it needed the

Marya companies' help. Issues of internal control are also raised by News group's allegation that Mr Bruce Hundertmark, the man it entrusted to help form and run NDSP and later appointed a News International director, had a secret deal with IDG, a minority shareholder and a company

in which Mr Clinger has a beneficial interest, in relation to its 20 per cent holding in NDSP Sky had engaged Mr Bruce

Hundertmark as a consultant in 1987 and be suggested News group should develop its own smart card system to restrict access solely to subscribers.

The beginning

Sky Television was Mr Rupert Murdoch's great gamble in the late 1980s. To win subscribers, the satellite channel would have to show popular programmes, particularly films, But Hollywood distributors were only prepared to do businesa if Sky could control access to its broadcasts. On News group's behalf, Mr Hundertmark negotiated a joint venture with Prof Adl

Shamir, a ploneer of encryption technology, and Yeda arch and

management centre. The joint put forward. venture was called News Gem, a Hong Kong company registered in Scotland as an overseas company, From late 1989 until June 1991, News Gem used the plas-tic cards and module assembly

supplied by Gemplus, and assembled and tested the smart cards. News gronp claims that its intention was for News Gem to manufacture the micromodule and microchip which were inserted in the module assembly, and thus produce complete smart cards. Hundertmark

In January 1989, with News group apparently unaware of Mr Hundertmark's alleged "secret arrangement" with Mr Clinger, Mr Hundertmark became an employee of News International (NI), and one month later was appointed an executive director.

Within a year, bowever, Mr Hundertmark began to suffer health problems and spent more time in Australia, according to Mr Peter Stehrenberger, NI's company secretary. It was decided that Mr Hundertmark should be asked to leave, he states, and on May 18 1990, he resigned as a director of NI and NDSP

Only after his departure, News group says, did it come to light that between March and April 1990 Mr Hundertmark had entered into five distribution contracts, including one with Catalyst - an alleged member of the conspiracy - on behalf of NDSP, allegedly contrary to what had been agreed by the NDSP board.

News group claims that once out about the

News group now claims that Mr Clinger's ulterior motive in making this argument was his alleged beneficial interest, through a web of offshore com-

panies, in 60 per cent of PMI, hence his desire to put PMI, a Marya company, in place as a key source of smart cards supplies News group alleges that PML an offshore company incorporated in Liberia operating from Jersey and with bank accounts

in Guernsey, has been used as a vehicle for the receipt of payments from News Datacom. Money received by PMI has

allegedly beeu disbursed to four companies, two controlled by Mr Clinger and two by Mr Marya.

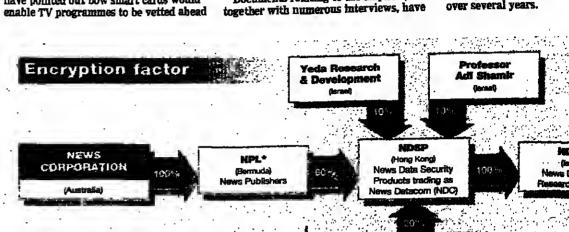
Such was the force of Mr Clinger's argument, apparently, that it was accepted by NDSP and the News group. Nevertheless, just months

later - by Antumn 1991 -News group states that it had decided it would have to replace Mr Clinger if the business was to survive. Hs had become extremely difficult to work with and Newa group states that it had also decided to buy oot the 40 per cent shares in NDSP it did not already hold.

The buy-out

Due diligence was undertaken. News group says, but it failed to uncover the alleged conspir-

News group admits that the gathering of information was made difficult because there was no central record keeping function. It also states that the responses given by minority sholders, in



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Carried out research and

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elopment, and, according to

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"News Group transferred News Publishers' 60% stake to NCHL." In 1992, News Corp bought minority shareholders in NDSP. It now owns 100% through a Lik subsidiary, News Datacom

THE COMPANIES

News Corporation Rubert Murdoch's main quoted company (Australia)

News onder that 1992 when body 100% ownership News International (NI) Owner of Times News scers. etc. UIQ. Parent company is News ... News Detacom (NDC) Corporation

Tracing name of NDSP 1990 Miss. From 1992 the negative the UK company, and backary of NJ, which bought the business of NDSP and News Publishers (NPL) Part of the News Corp group. Held News group's 60% stilke in NDSP, 1968-91. (Bermuda) Its applicitaty NDRL Described as # "UK tax payer" according to

Nones Cayman Holdings (NCHL) Bought' NFL's 60% stells in NDSP shead of the \$13.2m bag-out by Nexts group of other 40% minority shireholders in July 1982. Pert of the News Corp group

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ager, News group

Management issues

While News group bopes its High Court action will enable it to recoup its alleged losses from overcharging, the claim has led it to disclose embarrassing details of how News pany Datacom was managed over a number of years.

Former directors of News Datacom who were responsible for the company during different periods in which the alleged fraud took place, include Mr Richard Searby, formerly chairman of News Corp, Mr Peter Stehrenberger, a director of News International, and Mr Gus Fischer, who resigned as a director of News International in 1995.

Between 1988-92 NDSP was 60 per cent owned by News group but is now a wholly owned subsidiary of News International.

An FT investigation has shown how top News group executives oversaw a series of

the company through which Weizmann Institute of Science, Prof Shamir's employer, commercially exploits new technol-

Yeda granted News an exclusive licence to Prof Shamir's algorithm in return for a combined 20 per cent interest in a joint venture, News Data Security Products. IDG took a 20 per cent stake. Just months before the deal, the US Securi-ties and Exchange Commission, the watchdog of the US financial community, had taken action against Mr Clin-

ger relating to his actions while at Endo-Lase, a bankrupt US medical equipment com-While NDSP could handle

the conceptual sids of the VideoCrypt encryption system, it had to work with another company, Thomson Consumer Electronics of France, to provide necessary decodsr hardware.

The first batches of smart cards were bought from Gemplus Card, which was one of only a small number of smart card producers. News group claims that "Mr Hundertmark therefore suggested that NDSP should set up its own factory shire. to manufacture them." In a joint venture between

NDSP and Gemplus in Livingston, Scotland, a factory was established a few hundred yards from Sky's subscriber

tracts to distribute smart Clinger, to requests for inforcards, steps were taken to renegotiate their terms. incomplete. Responsibility for renegotiat-

ing with Catalyst was given to Mr Clinger, and a new agreement was entered into in August 1990. News group claims it did not st that stage know that 60 per cent of the shares in Catalyst were beneficially owned by Mr Clinger.

The reliance of NDSP on the Marys companies increased further at about the end of 1990 when News group contracted PML, connected with Mr Marya, to start snpplying smart cards to NDSP.

Livingston

Within months, News group claims, the Marya companies had turned this into an exclusive supply arrangement. One of the main reasons was the decision taken by the NDSP board in June 1991 to cease assembly of smart cards at the Livingston factory, which would have enabled the News group to produce complete smart cards. Instead programming of the cards was to be carried ont st tha NDSP facility in Maidenhead, Berk-

In its legal action News group blames Mr Chinger. Mr Siskind claims that other NDSP directors were swayed by the arguments Mr Clinger

mation were inadequate and

Despite these problems, in May 1992 the buy-out agreement was signed and in July it was completed. News group paid \$13.2m to buy out by the 40% minority shareholders in NDSP, and News Datacom Ltd (NDC), a UK company and News group subsidiary, then

took over the business. News group states that \$5m was paid to IDG, the Netherlands Antilles company, for its shares in NDSP, plus a further \$510,000 under a "consultancy and fair competition agreement". It was also agreed that further funds would be paid to IDG over a five-year period based on the revenue received by News group. Warranties were obtained from Mr Clinger as part of the deal, News group states. Mr Hunderimark is now claiming that he is entitled to

part of IDG's pay out. "Conspiracy"

The 1992 buy-out and departure of Mr Clinger did nothing to stop the alleged conspiracy and the dependence of NDSP and NDC on the Marya companies for the supply of smart cards, News group claims. NDSP and subsequently NDC were, in effect, locked into a relationship with the

Marya companies whereby in

According to News groups, News group says he is suring TDC. My Conger and others in latest for pedinger of the share in the processing of sale of TDC shares. Let Kneiger Former chef financial of intelliger Stephent Berdett; NDC chief executive after Mr Price. Tried to find second jupplier for

smatt cards.

Michael Clinger Director of NDSP and NDRL, 1998-92. Co-defendant in News group suit. "Controlled and directed" IDG, NDSP and NDRL. His memors revelance from larger tex. builting Intention to distance NDSP scoording to News group. Question in the state Revenue on , personal tax to an automation and an angenter with News statement

Daniel Doo

NDSP boingerty secretary. Received Instructions from Bruce Handermark about payment of directors' tees to foreign bank

accounts. Que Fischer* Former menaging director of Newa International

control over the terms on which the cards were supplied and the price they were paying, News group claims.

ruary 1992 with primary The production process responsibility for the purchase involved microchips bought by of smart cards, also became involved, News group claim, frustrating NDC's efforts to NDSP and NDC direct from Motorola of the US, and subsefind a second source of anently from Siemens, being provided to the Marya compasupply. nies. Once the cards had been However, News group admits it has failed to identify with assembled by the Marya comcertainty how Mr Matatyahu panies, they were shipped to has been receiving his alleged commission. Its belief that Mr PMI in Jersey and from there they were sent on to NDSP and NDC in Maidenhead, and later

Clinger has been involved in a to premises near Heathrow, for conspiracy against it has been followed by the group's not programming. News group believes Mr Chincompleting payments to IDG

under the 1992 buy-out agreeger continued to play a part in

manager for NDFL Had m

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News late director and company

angreet . ine of former land) employee of the News Datacom smart card operation who apparently latew of its tax planning. According to NDRL's taraet tawyers, his job was to "rehreadly@y determine now much value was to be attributed to :each project done during the past

Tom Price Clief eteculies at NDSP after Bruce Hundertmark a departure year to achieve economic reality as close as possible to the objectives of almost no profile for Former claiman of News Corp. MOR

practica they had very little the conspiracy even after the ment. Arbitration on the did not have the technical row in London baa been expertise to challenge Mr

Matatvahu. Parts of the conspiracy alle-Anyway, efforts to find sei. gations are said to be corroboalternative source of smart rated by transcripts of tape card suppliers were put on recordings provided to News group by Mr Leo Krelger, hold when a more immediate threat to its business emerged NDSP's former chief financial pirates gaining access to Sky's transmissions illegally.

In its High Court action. To beat this threat, the group News group details bow needed co-operation from the attempts it made to locate an Marya companies, which it got. alternative source of supply Later in 1994 efforts made by were hampered by its manag-News group "to find a second ers' lack of relevant expertise. source met with great hostility Mr Artbur Siskind, News from Mr Marya who threatened to withhold supplies of cards", Corp's general counsel, states that the management of News Mr Siskind says. News group Datacom in Maldenhead to says it now has a number of whom Mr Matatyahn reported smart card suppliers

Dark tax affairs in a corner of Rupert Murdoch's empire

nternal documents from News out activities.

Data Security Products, a Hong Kong-registered company which oversaw the development and production of the smart card used to prevent the piracy of satellite broadcasts, give a rare glimpse into the tax affairs of an important corner of Mr Rupert Murdoch's corporate empire.

The level of tax paid by News Corporation, the group's parent company, and its subsidiaries, has long been a controversial issue. The NDSP documents seen by the FT throw some light on this.

Documents show how the company's operations and accounts were structured to minimise the revenues reported to tax suthorities in Israel, where its wholly-owned subsidiary News Datacom Research (NDRL), was based and carried out its business, and also in the UK where the company has also carried

The structure led to NDSP. in which News group beld s 60 per cent stake, being liabla for tax in Hong Kong, where it was registered. NDSP traded as News Datacom and that became its official name after News group took 100 per cent ownership in 1992 through a UK registered company called News Data-

com Ltd. The documents also show how remuneration to NDSP executives was paid, out of Hong Kong, to a variety of foreign bank accounts. Executives had some of their remuneration paid as consultancy fees, but booked as directors fees in the accounts.

NDSP bought R&D services from NDRL on a so-called "cost-plus" basis, but in a letter written in July "When NDSP and NDRL were to its High Court action.

established, it was recognised that certain steps were required in order to distance NDC (NDSP) revenue from Israell income tax."

Mr Kreiger said the method used for recording "projects" and "costings" did not have any significance other than for Israeli income tax purposes. "They are primarily developed to allow for appropriate timing of reporting revenue to the Israeli income tax suthorities to

mesult in negligible profit." Mr Kreiger says "these are tax avoiding (as opposed to tax evading) devices" and that "Arthur Andersen [auditor of News Corp] does not even reviaw these documents". News group has agreed to pay Mr Kreiger, who last year was questioned by the Israeli Revenue about his personal tax affairs, in return for his "assistance in analysing and 1991, Mr Leo Kreiger, the then chief for his "assistance in analysing and financial officer of NDSP. says: providing information" in relation

1993, Mr Kreiger is said to have warned Herzog, Fox and Neeman, News Datacom's lawyers in Tel Aviv, that a former company employee who knew of the "company's tax planning" could "approach

Court.

close as possible to the objectives of almost no profits for NDRL". Other internal NDSP documents raise questions about the tax jurisdiction in which management and control of the company took place, cracial in determining where it should be liable for tax.

Mr Kreiger told Mr Gus Fischer,

In another memo dated February then a director of News International, whose parent company is News Corp, that "management and control was not exercised from the UK" in discussions shout the tax status of Mr Bruce Hundertmark. the former director of News International facing action in the High

> Mr Kreiger, in the memo dated June 1990, discussed how the location of senior executives of News Datacom residing in the UK "and being responsible for company sales activities", could mean that "NDC ing the period in question. [NDSP] would be exposed to Inland Revanue claims of NDC [NDSP] trading from and in the UK".

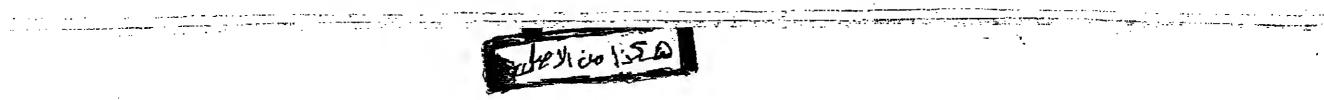
Mr Avi Alter, a leading tax expert in Israal, concluded in a report trol was outside of Israel and it was not liabls for tax there. dated October 1995 that the "foreign control" of NDSP was "merely a façade, and the actual management and control of NOSP were based in Israel".

With Mr Kreiger stating that lished in Hong Kong for "valid busimanagement and control was not in the UK, Arthur Andersen stating, in another document, that manageness considerations". Throughout the relevant period NDSP had "accumulated losses and the whole ment was not in Hong Kong, Mr question of its Israeli tax liability is Alter says: "Since management must be centred somewhere...the therefore academic",

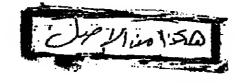
Serious questions also arise over the recording of payments to directors of NDSP.

Mr Alter, who as News group A letter written by Mr Bruce Hunpoints out does not state who comderimark, then a director of NDSP missioned his report, concludes that and also of News International, to NDSP is liable for Israeli tax on its Mr Daniel Doo, NDSP'e secretary in Hong Kong, dated August 16 1988, income from all of its activities durstates; "As you are aware from the News group, throogh Herzog, last NDSP board meeting in Hong strongly denies Mr Alter's conclu-Kong, there was unanimous agreesion and says management and conment to pay certain individuals consultancy fees as part of their remu-neration." He told Mr Doo NDSP

Herzog says "the description of directors had agreed to "book these the facts is clearly slanted against payments as directors' fees and not NDSP" and "it is highly prejudicial as consultancy fees, therefore there to NDSP's interests". The response should be no additional record of also saya that NDSP was estabthese payments".



the tax authorities in Israel with this information". Herzog's note of tha meeting states that at the financial year end the employee, known as Yagel, "had to retroactively determine how much value was to be attributed to each project done during the past year to achieve economic results as



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The 1996 UK Dealing Room Survey * - Kimsey Consulting Ltd.

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CRL, Thorn EMI's former

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PCs built with

recyclable casing

disposing of obsolete computer

computers gets shorter, torites

To cut disposal costs and help safeguard the environment, beli Computer has introduced a PC chassis made entirely of

recyclable materials. It is made of

a durable plastic that is free of

coatings or fillers that normally

prevent recycling. The structure is supported with preplated cold rolled steel, which can be

separated quickly with the twist of a screwdriver. The plastic is identified and marked in

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Information on Dell's World

Satellites at risk

satellites are at risk from

from the sun

Wide Web site, http://www.deli.com

The UK's Defence Evaluation and

Research Agency has found "conclusive evidence" that many

electrostatic discharges while in

orbit. The researchers' aim is to

missions against these internal.

charging effects which can result

Satellites could be particularly

susceptible early next year when

the 11-year solar cycle of activity

minimum. At this time, electrons

penetrate thin coverings of the .

microelectronics circuit that was

specially susceptible to charge

on the sun's surface reaches a .

in hugely expensive satellite

find a way to protect future

equipment is rising as the normal "life cycle" of business personal

The difficulty and cost of

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Louise Kenoe

standards.

failures.

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Process Technology

Getting a good hearing

12

ake the kind of sound mixer found in recording studios, digitalise the operation, put it on a chip measuring less than half a centimetre square and you will have the making of a good hearing aid.

This, ronghly speaking, is what two rival Danish hearing aid manufacturers, Oticon and Widex, have done. A third Danish company, Danavox, is expec-ted to follow in their footsteps shortly.

Oticon announced last autumn that it would be launching a 4.5g behind-the-ear digitalised hearing aid in the spring of 1996. Then last week Widex presented an in-the-ear device weighing just 1.5g, including a battery with a working life of 165 hours. Jan Topholm, Widex chairman, says the company expects to produce between 50,000 and 100,000 of the new aids within the first year. Whichever device is chosen by users, the Danish companies have stolen a march on their international competitors.

The Widex aid, called Senso, is based on a proprietary chip! developed hy the company in co-operation with an undisclosed international chip mannfacturer. The chip samples sound received at the rate of 1m samples per second. It processes and redistributes the sound to the wearer of the aid at a rate of 32.000 20-bit "words" a second. Digitalisation means that the device can he programmed, rather like the recording studio sound-mixer, to suppress background noise and to recognise

and enhance the speech of tha person the wearer is talking Widex claims that it has been able to eliminate whistling, which is caused by an acoustic feedback loop (the microphone picks up the sound being broad-

cast by the bearing aid and rebroadcasts it). The aid itself measures hearing loss and programs automatically for optimal compensation, so the wearer does not have to adjust the

Hilary Barnes

concerned, loing a cake should be as easy as sealing a car windscreen. Both jobs require them to squirt a viscous liq-uid in complicated patterns, But while robots are familiar ROBOTICS AT WORK they are neartools to carmakers, strangers to food processors. There

As far as robots are

may be fewer than 20 sophisticated examples in the UK and most are used in packaging and warehousing rather than food preparation, according to the British Robot Asso ciation. Use on tha Continent is wider but still limited. Two crucial factors have inhibited

robot penetration of food preparation, says Peter Wallin, head of food engineering and manufacture at Leatherhead Food Research Association near London. First, people are reluctant to invest, he says. Food manufacturers survive on notoriously thin margins and have little difficulty hiring unskilled staff at pay rates as low as £100 a week.

Second, many food manufacturers "lack a vision for manufacture and how it relates to profitability". says Wallin. They are focused instead on developing their rapidly changing products and markets. They also tend to be weak on technology because they have cut their staffs or had their fingers burnt on high-tech projects in the past. To explore these issues, Leather-

head and the Ministry of Agriculture, Fisheries and Food hope to attract 100 delegates to a one-day seminar on food robotics at Leatherhead on June 7.

"It is difficult to find food peopla who openly admit they have got a robot and that it works. They want to keep it a secret," says Bob Lloyd, chairman of the BRA and project manager of the food division of Intelligent Systems, a robot and systems integrator. Those who have made them work

keep very quiet because of the potentially huge productivity gains. In the food industry a small manufacturer can rapidly gear up to be a hig one if it can devise an innovativa or cost-effective product. Among big processors, Unilever, Nestle and Mars are widely rumoured to be keen developers of robots but so competitive an issue is it that they barely acknowledge their interest in the machines.

Big breakthroughs have tended to come in highly concentrated, hig and competitive sectors, typically where they dominate a nation's agribusiness. Thus robots butcher sheep in New Zealand, slice pork in Denmark, fillet fish in Iceland, pack chocolates in Switzerland and make schnitzels in Germany.

The British must be a nation of cake and biscuit eaters because that



TECHNOLOGY

Slice of the action: robots are rarely sighted in food and drink production

Food processors are coy about automation, says Roderick Oram

Secret ingredient

show enticing results as equipment improves and experienced is gained. "We are probably about a year

away from finding the right cost solntion," says Paul Kitchener, operations director of McVitie's, the United Biscuits subsidiary. His goal is to develop a robotic head with visual recognition powers that could be used widely across the gronp. McVitie's already has one packaging cheese biscuits and is about to install a second to delicately pack custard products.

Similarly, Fox's, Northern Foods' hiscuit subsidiary, is using simple robots without image definition to

is one area where the cost-benefit help pack assortments of hiscuits. But it is still people that inse But it is still people that insert the trickier items into the tins and do the final inspection. Gary Glover, general manager of Fox's Kirkham factory, readily acknowledges this use is closer to mechanical handling than true robotics but

> Robots are making inroads in more technical areas of food preparation. Affordable Automation of Manchester used CRS robots from Canada, for example, to automate nuclear magnetic resonance spectroscopy testing of food samples for

a leading processor. It also offers a CRS robot skilled in icing hut so far has no UK takers, says Tony Evans, managing director.

The payback is coming down to two or three years," says David Bennett, manager of the food sector for ABB Flexible Automation, a subsidiary of the Swedish-Swiss group which began its food thrust less than three years ago. Prices can start at about £100,000 for a singla robot on a single packaging line. ABB stresses that robots have a high residual value. They come with three years' free maintenance, have a long life and users can easily move them to other tasks if their needs change.

ABB and other robot makers also stress operational benefits such as the control and information that robots bring to the use of ingredients, particularly seasonal ones, in food processing.

The tough technological challenges lie ahead, however. The food industry should be ideal for robots. Many tasks in food preparation and packaging are repetitive but the orders can be small and intricate. One supermarket might specify, for exampla, that six slices of pepperoni are arranged in a circle on its own-label chilled pizzas while another calls for eight slices in lines.

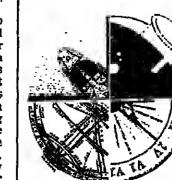
A chilled pizza line today might have highly automated dough making and baking and dispensing of cheese and tomato pastes, but downstream scores of people place the toppings. Similarly, hundreds of thousands of fresh sandwiches are made in factories each day but by hand.

Fresh foods present particular challenges with health and safety regulations working largely in robots' favour. Pizzas and sandwiches, for example, would have a longer shelf life if they were made in a near freazing. deoxygenated atmosphere. But they can also replace humans in less hostile but still unpleasant environments such as a cold abattoir, An occupational hazard for hutchers is repetitive stress injury caused by wielding knives in low temperatures.

But these are the very applications where robots still need a lot of adaptation from their car industry forebears. Some already ice a cake in 15 seconds or slice chicken breasts in moments but more speed and dexterity is needed. Moreover, strict hygiene standards require easy cleaning of, say, stainless steel robots in a pristine environment far removed from a

Until robot makers and systems integrators find cost-effective solutions to these difficult tasks. food processors are likely to remain heavily dependent on cheap labour.

Worth Watching · Vanessa Houlder



Robots lend a hand in prostate surgery

A robotic device designed to help surgeons carry out prostate operations is likely to begin clinical trials in the coming months.

Prostate operations involve tha painstaking paring down of tissue over a period of up to 90 minutes. By making the task less taxing, it is possible that surgeons could perform more operations during the day.

The robotic device could make the operation less tiring because the surgical instrument would be manipulated using a hand-held joystick. Future developments could include an ultrasound imaging system to guide the surgeon on how deeply to

The system was developed by Dryburn Hospital in Durham and Labman Antomation in Stokesley and demonstrated at last week's Institute of Physics conference. Institute of Physics: UK, tel (0)171 470 4800; fax (0)171 470 4848.

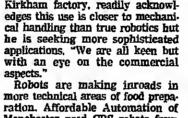
Daimler's stripey defect detector

Daimler-Benz, the German carmaker, has improved its ability to detect defects in car parts, by using an optical technique that involves shining a pattern of stripes on to the metal. The pattern, which is monitored with a video camera, will appear distorted even if the surface is only a few hundredths of a millimetre out of line. Even smaller rongh spots can be discovered by using a computer Daimler-Benz: Germany, tel 7111793039; fax 7111794365.

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build-up. Dera: UK, tel (0)1252 394627; fax As electronic distribution becomes more common, picture libraries and news agencies have



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tents, systems and complete processing lines for food and beverage producers, the chemical and phase







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Cinema/Nigel Andrews Dirty Dozen in Tarantino-land

f there were s "best title" Oscar, Things To Do In Denver When You're Dead would vanquish all opposition. Ascending the stage in spotless tuxedos, the makers would clasp the gold statue and thank the following. The city named Denver for conjuring by its very sound a pluperfect provin-cialism; the alliterative rhythm of "dead" and "Denver", sug-gesting interchangeable concepts; and the iambic brio of the whole phrase, which could come from Shakespeare via

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Chandler and Tarantino. The film is as good as its name. First-time feature director Gary Fleder steers a dream cast through dream dialogue, written by fellow dehutant Scott Rosenberg, while a crazed visual elegance transforms the plot about five semiretired hoodlums bungling fatally - a last simple assignment

Cur hero is gangster turned "afterlife advice" mansger Andy Garcia, wbo video-records dying people's counsel to their surviving loved ones. When he takes a day off work to belp crippled crime boss Christopher Walken, it proves to be less a day, more s lifetime. Walken's retarded childmolesting brother was about to be saved by the love of a good woman when the girl fell for a passing playboy. Frighten the playboy off!, hisses Walken. And be glowers through corpse-like cheeks with the little energy left from mouthsteering his wheelchair.

You may guess what happens. Rainy night road; blinding lights; boy pulled up by Garcia's cronies dressed as fake patrolmen. Then the unexpected flash of knife, the unplanned gunshot. Exit in all directions the cronies. Since these include a nervous porn film projector (Christopher Lloyd), an overweight black film as a mangy chorus figure, pest controller (Bill Nunn), a explaining the story's jargon trailer-dwelling down-and-out from his diner-table. This glori-

(William Forsyth) and a morgue-working ex-boxer (Treat Williams) who uses dead hodies as punchbags, you understand that they will follow any signpost that says "Trouble and disaster". Disbelief is suspended early

on. We spend a mere pedantic minute or so wondering why a well-oiled smoothie like Garcia, who has applied to his hair all the unguent he does not use in his speeches, would even think of employing these brain-deficient henchpersons. Or why he goes back to Walken after the botched joh, as if to tickle the

THINGS TO DO IN DENVER WHEN YOU'RE DEAD Gary Fleder MARY REILLY Stanhon From

_	Stephen Frear
	HACKERS Iain Softley
	BARB WIRE David Hogan

reek of crime.

tionary" explains his partner).

Choice terms include "faeco-

boss and are about to be

threshed by a slow death. And

tummy of his own nemesis. No: having decided on s plot reminiscent of a discount Dirty Dozen, Fleder and Rosenberg run with its vast surreal potential. This is clearly Tarantino-

ous actor, with his echo cham-ber voice and raddled lion face, might have wandered in sans costume change from playing Tiresias in Woody Allen's Mighty Aphrodite. The film finds time, but shouldn't have, for two love subplots. Garcia vacillates between high-class beauty

Gabrielle Anwar and hooker Fairuza Balk. Both women coma wearing signs, the "chance of a better life" and the "tart with a heart": which is a shame in a film that everywhere else resembles a maze you never want to find your way out of, even if you should accidentally stumble on its notional centre. One of the things not to do in Denver, even if dead, is see

Mary Reilly. Director Stephen Frears and screenwriter Christopher Hampton may have viewed this project as "Danger-ous Liaisons Two": another study in outré eroticism from the team that hrought us Glenn Close and John Malkovich as the Laclos-based fancy dress sex-adventurers. Both actors are back, she in

a bosomy vignette as a Victorian brothel keeper, he as Dr Jekyll and Mr Hyde. The source novel is Valerie Martin's re-telling of Stevenson's horror yarn from the viewpoint of Jekyll's servant maid, played by Julia Roberts. Ergo, land, where style knows no morality, apocalypse needs no logic (or not much) and the it is Wide Sargasso Sea or Rosencrantz And Guildenstern vernacular is as rich as the Are Dead by another session of Virtual Plagiarism. Gormless hit men use words

The through-the-keyhole like "specious" and "anon". approach results in a visual ("Gus has been reading the dicperspective almost as cramped and frustrating. Cinematographer Philippe Rousselot's low lighting and designer Stuart freak", "mammy rammer" and Craig's doom-grey interiors sti-fle what small life there in the "buckwheat": the last meaning that you have disappointed the two main performances. We hesitate to say "three" since Jack Warden almost steals the Malkovich's monster is distinguished from his medico by little save long hair and a whinier snarl.



As good as its name: Andy Garcia and Treat Williams in "Things To Do In Denver When You're Dead"

Roberts, meanwhile, seems like a girl lost without her boop in an Edward Gorey horror strip. The fey, etiolated performance is unhelped by an accent that moves around the British Isles like a backpacker searching for a vacant B-and-B. The film's crypto-sexual psy-chopathology is just as

vagrant. We begin with Freud: a thrashing eel brought to the kitchen and skinned before our eyes. We pass through R.D. Laing: "I am the bandit, he is merely the cave in which I shelter" says Jekyll of Hyde. And we end with Alien as but no, if you sit through this movie you might as well have the slim reward of its shockborror climax.

Hackers is about the exciting tima you can have if you are young and insomniac and own a computer. Every time you draw back your bedroom curtains after a hard night's surfing you will be set upon by the Internet's answer to Interpol: at least according to this rockscored, lollipop-coloured thriller directed by Jain Backbeat Softley. The said cops will rusb out with guns and gats and haul yon off for a hard dsy's questioning Why? Because you have just tapped into a millionaire's

Swiss bank account and/or the secrets of the universe and/or the minutes of the story conference that produced this insanely brainstorming film. You have to warm to a

agree to fly from some third-

world country to a western

capital with a load of cocaine

The pay is darisory, compared with the profits that

a successful trip will make for

the real dealer; the risks are

great, for the couriers usually

carry the drugs not about their

persons but in them (you can-

not plead that yon never knew

they were there), and the penal

Winsome Pinnock's new-ish

play, Mules. at the Royal

Court's studio theatre is about

three sncb people, young Jamaican women. Sbe "researched" it while resident

in Holloway women's prison

for the Clean Break Theatre Company (who put it on first),

and elsewhere in the UK and

in Jamaica. The result is

interesting to watch, and

disarmingly performed; but not, I think, a very good

sanctions are severe.

or heroin.

movie that has 11-year-olds committing major industrial sabotage and that never walks when it can run, leap, dance or rollerskate. Yon have to warm to it, although I am not sure you have actually to see it: at least until it becomes a CD-Rom and you can watch in the comfort of your own snug, police-surveyed bedroom. Pamela Anderson Lee - the last name has been pinned on

her for services to Baywatch ond? and in recognition of her desire to change identity for a feature career - is an extraordinary presence in the sci-fi thriller Barb Wire. The eyes try to find

two of everything, though here they are more viewer-friendly. The leather hlouse struggling to stay huttoned I willingly understand. Obviously in the year 2017, in a post-nuclear society, you cannot find a reliable dress shop. But the enor-mous pouting lips and the ditto derriere are beautiful mysteries. How does she speak lucidly through the first or sit down. in tight dresses, with the sec-

That there is a film, and a fairly appalling one, attached to this phenomenon seems academic, Barb Wire is for all those who thought thet Jayne Mansfield was dead and that silicon and collagen, those miracle twins, could never bring

As with Dr Jekyli there are her back for us.

Broadway comes to the

13

Proms he 1996 Proms, which open at the Royal Albert Hall on July 19 with a performance of Haydu's The Creation, have a new director in Nicholas Kenyon, the controller of Radio 3. But the formula of tha most successful music festival in the world stavs much the same: in Kenvon's words, "a combination of quality and popularity". There are no great themes but one of the under-currents running through the record number of 72 proms, all to be held this year at the Albert Hall, is creation and re-creation - composers looking back to their mentors

So there is Stravinsky re-interpreting Tchaikovsky; and Elgar, Bach. There is also a spread of "Te Deums", from Havdn. Bruckner (well featured this year), Dvořák and others.

Kenvon is taking a more liberal view of the Last Night junketings than his predecessor, John Drummond who wanted a subdued. respectful audience. "I'm in favour of a spirit of genuine celebration", although in the first half there will be a London première for Poul Raders' "Concerto in Pieces'

In all there will be 25 new works performed at the Prom including five BBC commissions. Kenyon is keen to present music that for some reason has been overlooked by the Proms, ranging from a Bach Mass to Stravinsky's "The Flood". Among other innovations will be the music of Duke Ellington; a late-night Prom of Broadway songs; and a linked series of chamber music concerts. Another novelty is a Schools Prom

here are some interesting curiosities in the concert

performances of opera, including the five act Italian version of Verdi's Don Carlos performed by the chorns and orchestra of Covent Garden under Bernard Haitink; a rare performance of Beethoven's Leonora, his precursor of Fidelio; and an even rarer revival of Kurt Weill's The Silver Lake.

Among the orchestras visiting the Proms this year are the Berlin Philharm under Claudio Abbado; the

Goya shortchanged in Madrid

be death on a Goya afternoon today in Madrid's bullring. José Miguel

n a rare one-man performance, it will grandly called the *año de Goya* by the (£8) to see the Prado's Goyas whereas they ministry of culture is an exhibition in the can at normal times be viewed for Pta400, Prado that has been hailed by its organis-Arroyo, a serious young man and a gifted matador who fights under the name ers as the biggest ever Goya show. The exhibition would infuriate Goya and it has of Joselito, is scheduled to kill all sk bulls selected for the corrida and he will dress Writing in El Pais, the influential Mad-

can at normal times be viewed for Pta400. which is the museum's entry price. The Prado itself has in the meantime been wbolly stripped off its Goya collection while the exhibition lasts. The "nullity" charge is a serious one

and critics have raised it on at least three

levels. No attempt has been made to

restore less than well preserved Goyas for

the exhibition or to re-assert the authen-

ticity of those that could be considered

dubious; the exhibition includes only a

handful of works from other museums and

from private collections and none of them

are judged to be "show stoppers"; and no attempt has been made to place Goya in

any kind of context either by exhibiting

his work with those of his contemporaries

or by exploring his debts to earlier paint-

The swful truth is that the ano de Goun

is the product of last minute rush and

improvisation. The decision to bold an

exhibition at all in the Prado was taken s

scarce six months before it was due to

open. Given the extraordinarily tight time frame it is remarkable that the Prado man-

aged to obtain any extra Goya paintings at

Gova: the Prado Museum, Madrid, until

June 2. International reservations may be

all for the anniversary show.

made on 34-1-537 6200.

a personality, but are bopelessly detained by the accoutrements. Theatre 'Mules' under threat

be "mules" who crop up in the news now are drug-couriers, town ghatto are hired by a needy people who sophisticated ex-Jamaican lady viction. of fy from some third- to do "mule" duty, but things By the

can, Nigerian).

morals.

go badly in an exemplary way

- and a surrounding collage of

sub-plot with floating vignettes. In all this, the three

black actresses play 12 roles of

varying sizes. It is fun to bear

their artful minicking of dif-

ferent black accents (London

posh, London East End, Jamai-

Pinnock has sought to leaven it by foisting self-con-

scious, hyper-articulate dia-

logues and monologues upon

ut the central strand.

heing exemplary, is as

predictable as any TV

docu-drama; and Miss

Mules offers a central strand bard to believe, despite the - two sisters from the Trench- players' valiant, inexpert efforts to give them live con-

By the end, one feels slightly

better informed about the sad.

continning situation that

unreasoned western legislation

running in awkward alterna-

ment of both. All the cast -

Abi Eniola, Sheila Whitfield

and Clare Perkins - have

strong, communicative virtues;

I think their director Roxana

up for the occasion not in the tight-fitting "suit of lights" worn by modern-day bullfighters but in the loose 18th-century costume that was the norm in Goya's day. 'Joselito's macbo gesture - in a normal corrida three matadors kill two bulls apiece - and his sartorial choice will probably be one of the few events thet Francisco de Goya would approve of amongst those that are being staged to celebrate the 250th anniversary of his birth.

Goya tried his hand as a matador and the hullfight continued to excite his artistic imagination througbont his life. Today's corrida commemorates Madrid's abortive uprising on May 2 1808 against Napoleon's invading troops, an event that moved Goya to paint two giant canvases which hang in tha city's Prado museum. But the artist would not be impressed by

s string of minor exhibitions and musical evenings that are being organised to cash in on his anniversary year and he would be scornful about tacky merchandising such as tours of his supposed haunts and special Goya restaurant nights modelled, one fears, on "medieval" banquets.

The chief platform of what has been

rid newspaper, Francisco Calvo Serraller. a former Prado director, called the exhibition a "nullity" and loftily denounced a

Tom Burns reports on bungled attempts to cash in on the 250th anniversarv of the artist's birth

bare-faced commercial attempt to "exploit ers and his legacy to those that succeeded culture by tricking the public at Goya's him. expense

Swindle is alleged because all of 130 of the 170 Goyas picture in the exhibition, including all the best pictures, already belong to the Prado where they are permanently hung and, indeed, often hetter bung than they are in the anniversary show. Arranging the exhibition has meant repositioning some canvases into areas of inferior lighting.

In an obvious sense the exhibition is a rip-off because, assembled as they are in

the anniversary show, it now costs Pta1000

French). Directed by Adrian Brine. The cast includes Cristian Crahay, Danièle Denie and Luc van Grunderbeeck; 8.15pm, Mon display includes soma 60 paintings 6.30pm; from May 8 to May 11

CHICAGO

BERLIN CONCERT Konzerthaus Tel: 49-30-203090

and Severini (Manifesto of Futurist

and 30 drawings, as well as letters.

Painters, 1910). The exhibition is

supplemented with works by

to Jul 31

Depero, Sironi and Soffici. The

 Vogler Quartet: perform works by Haydn, Ligeti and Smetana; 7.30pm; May 5 OPERA Deutsche Oper Berlin Tal: 49-30-3438401 Lucia di Lammermoor. by Donizetti. Conducted by Marcello Viotti and performed by the Deutsche Oper Berlin. Soloists include Manuel Lanza, Lucia Aliberti, Alfredo Kraus and Volker Horn; 7.30pm; May 6 Komische Oper Tel: 49-30-202600 La Traviata: by Verdi. Conducted by Shao-Chia Lū and performed by the Komische Oper. Soloists include Nadelmann, Fedin and Dobber; 6pm; May 5

Staatsoper unter den Linden Tel; 49-30-2082861 Der Rosenkavalier: by R. Strauss. Conducted by Donald Runnicles and performed by the Staatsoper unter den Linden. Soloists include Tina Kiberg, Günter von Kannen and Iris Vermillion; 6pm; May 4, 7 (6.30pm)

BRUSSELS

Molly Sweeney: by Brian Friel (in

photographs and books; from May 8

EXHIBITION

Art institute of Chicagn Tel: 1-312-4433600 Contemporary British Architects: Recent Projects from the Architecture Section of the Academy Summer Exhibition: this exhibition features 80 architectural drawings, models and photographs from leading British architects as well as up-and-coming practitioners; to May

COLOGNE

OPERA Opernhaus Tel: 49-221-2218240 Die Zauberflöte: by Mozart. Conducted by Georg Fischer and performed by the Oper Köln. Soloists includa Dieter Schweikart, Rainer Trost, Martina Rüping and Iride Martinez; 7.30pm; May 4

DANCE Royal Opera House - Covent Garden Tal: 44-171-2129234 Anastasia: a choreography by Kenneth MacMillan to music by Tchaikovsky and Martinu, performed by The Royal Ballet. Soloists include Leanne Benjamin, Stuart Cassidy and Jonathan Cope; 7.30pm; May 3,

OPERA London Coliseum Tel: 44-171-8360111 Fidelio: by Beethoven. Conducted by Richard Hickox and performed by the English National Opera. Soloists include Anthony Rolfe Johnson, Kathryn Harries and Peter Sidhom; 7.30pm; May 3, 6 THEATRE

play.

Lyttelton Theatre Tal: 44-171-9210631 Blue Remembered Hills: by Dennis Potter. Directed by Patrick Maber and performed by The Royal National Theatre. The cast Includes Geraldine Sommerville; 8pm; May 3, 4 (also 3pm), 6

LOS ANGELES **EXHIBITION**

Los Angeles County Museum of Art Tel: 1-213-857-6000 Photography and Beyond in Japan: Space, Time and Memory: this exhibition of some 90 works by 12 artists surveys the diverse uses of photographic media that have evolved in Japan in the last 15 years and the interrelationships between western and Asian influences. The exhibits range from traditional prints to sculptural works, and from conventional formats to computer-synthesized pictures; to

May 5

NEW YORK

Alice Tuily Hall Tel: 1-212-875-5050 Emerson String Quartet: perform works by Dvorak, Rorem and Brahms; 2pm; May 5 Avery Fisher Hall Tel: 1-212-875-5030 The National Chorale: with conductor Martin Josman perform

Brahms' Requiem and Bernstein's Chichester Psalms. Soloists include Rebecca Copely and Julien Robbins; 8pm; May 3 EXHIBITION

MOMA - Museum of Modern Art, New Ynrk Tel: 1-212-708-9400 Lilly Reich - Designer and Architect the first exhibition devoted to this modernist German designer of the 1920s and 1930s; to May 7

OXFORD

EXHIBITION Museum of Modern Art

Tel: 44-1865-722733 Carl Andre Sculptor 1996: the first large retrospective exhibition of Andre's sculpture to be seen in Britain for 20 years. Highlights of the exhibition include the reconstruction of the installation Equivalents I-VIII, created by Andre in 1966, and the 11 metre square piece called 6-Metal Fugue (for Mendeleev); from May 5 to Jun 30

PARIS

CONCERT Salle Pleyel Tel: 33-1 45 61 53 00 Orchestre Philharmonique de Radio France: with conductor Günther Herbig perform Mozart's Symphony No.36 in C, K425 and Mass in C minor, K427. Soloists include R. Fleming, I. Tamar, I. Beuzon and T. Fechner; 8pm; May 3

ROME

CONCERT Accademia Nazionale di Santa Cecilia Tel: 39-6-3611064 Orchestra dell'Accademia di Santa Cecilia: with conductor

ber characters, along with Silbert might have done much more to lubricate their stiff some very woozy "feminist" In a novel, they might read interplay. well in third-person form (the **David Murray** novelist tells us what she thinks her characters must be thinking); as uttered on stage At the Royal Court Theatre Upstairs, to May 18. in propria persona they are Myung-Whun Chung, soprano Nina. Rautio, mezzo-soprano Clazia Mola, tenor Gary Lakes and bas Marek Gasztecki perform Debu

bere.

ZURICH

Listing compiled and supplied by ArtBase The International Arts Database, Amsterdam, The Netherlands. Copyright 1996. Al rights reserved. Tel: 31 20 664 (

Chicago Symphony with both Solti and Barenboim and the New York Philharmonic with Kurt Masur.

There will be plenty of early music, Indian music, and lots of Spanish music to celebrate has brought about (which a TV documentary could have schieved just as well), and tantalised by poetical flashes Falla, who died 50 years into the lives of tha female ago, and Gerhard, who was born 100 years ago. Ticket third-world poor. Those distinct things do not coalesce prices are the same, or only marginally higher, than a year ago, and a season ticket for all Proms at £130 (standing in Instead, we seem to have two suh-plays of different kinds the arena) must remain one of tion, to the theatrical detrithe best bargains in the arts.

Amid all the concern that classical music is in decline andiences for the Proms remain surprisingly healthy: 81 per cent of capacity last year, a year which was dedicated to new music. The Proms remain the pride and joy of Kenyon and the BBC.

Antony Thorncroft

WORLD SERVICE

Rautio, mezzo-soprano Clazia De Mola, tenor Gary Lakes and bass Marek Gasztecki perform Debussy's La Mer and Janacek's Glagolitic Mass; 5.30pm; May 5, 8 (9pm), 7 (7.30pm)	BBC for Europe can be received in western Europe on medium wave 648 kHz (463m) EUROPEAN CABLE
SAN FRANCISCO	AND SATELLITE BUSINESS TV
EXHIBITION	(Central European Time)
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 Pergamon: The Telephos Frieze from the Great Altar: exhibition of 	NBC/Super Channel:
rare and renowned works of Hellenistic sculpture from the	07.00
second century BC. Twelve newly restored relief sculptures from the	FT Business Morning
Talephos frieze that once decorated tha interior court of the Great Altar	10.00 Europeen Money Wheel
of Pergamon are on display, along	Nonstop live coverage until 15.00 of European
with some 30 other works that help explain the original purpose and	business and the financial markets
placement of the Telephos frieze; from May 4 to Sep 8	17.30
	Financial Times Business Tonight
	CNBC:
Openhaus Zürich	09.00
Tal: 41-1-268 6666 Ormindo: by Cavali. Conducted	Squawk Box
by Veronica Scully and performed	10.00
by tha Oper Zürich; 8pm; May 3, 5 (5pm)	European Money Wheel
	18.00 Financial Times Business
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ANTWERP

CONCERT

■ La Petite Bande: with conductor/ violinist Sigiswald Kuijken and violinist Ryo Terakado perform works by Haydn and Mozart; 8pm; May 8

ATHENS CONCERT

Athens Concert Hall Tet: 30-1-7282333

Athens State Orchestra: with conductor Dimitris Choratas and planist Aris Garoufalls perform works by Ravel, Rachmaninov and Mahler, 8.30pm; May 3

BARCELONA

EXHIBITION

eu Picasso Tel: 34-3-3196310 Futurism: exhibition featuring works by the leaders of this movement. These were the artists who signed the first Manifestos: Marinetti (Futurist Manifesto, 1909)

and Boccioni, Carra, Russolo, Balla

THEATRE Rideau de Bruxelles Tel; 32-2- 507 83 60

CONCERT

LONDON

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COMMENTER ANALYSIS



Peter Martin Polishing up Rover's act

Patience will be needed if BMW is to overcome the inherent difficulties of transferring its premium-pricing strategy to its UK subsidiary

It seems so tempting. In industry after industry, trouhled companies plan to escape from their prohlems by following a BMW strategy: premium pricing for a premium product: technical excellence combined with glamour; limited volume but high returns.

Apple is just the latest company to try to adopt this approach. But following in BMW's footsteps isn't easy. In fact - as this week's news suggests - even BMW finds it difficult at times.

BMW is trying to apply the recipe it used to escape from near-hankruptcy in 1959 to Rover Group, its recent British acquisitioo. On Monday, bowever, it announced that Mr John Towers, who had transformed Rover's manufacturing processes hefore the BMW deal, was leaving as Rover's chief executive.

Mr Towers may indeed have had long-laid plans to leave; he may well he in line for one of the slew of top UK engineering jobs now available. But his departure does nothing to dispel the general impression that BMW is unhappy with the short-term performance of its British acquisition.

Of course, ostensihly friendly cross-border take-overs often follow such a trajectory, particularly when the product is enveloped in national sentiment. First, all is sweetness and light: the acquirer goes out of its way to praise the quality of its new workforce, the deptb of managerial talent, the strength of the brand. The subsidiary's long-cherlshed investment plans are given the parent's blessing. Long-term strategic sourcing plans are agreed.

Then things start to go a hit sour. National characteristics grate a little. Differences over accounting standards, transfer prices or engineering philosophy leave one side or the other feellog disgruntled. Before long, all the original directors have moved on, leaving the parent to choose more sympa-thetic managers. Over time, the characteris-

tics of the parent win out. The

iary's performance, but there is usually little sign of the "best of both cultures" promised at the time of the acquisi-BMW's experience with

Rover may be no more than a playing-out of that familiar pattern. But it may also reflect the inherent difficulties of the strategy it is applying. The essential ingredients are demanding ones. The most expensive of these

sustained high levels of investment to achieve the performance edge that the product positioning requires also the simplest. This merely requires deep pockets, which BMW certainly possesses: it has already doubled Rover's investment rate. More complex are the other

requirements. Ohtaining superh and ever-improving quality requires the collaboration of the entire company, from managers to cleaners. Rover bad made great strides in this area hefore the BMW takeover, and was certainly at the top of mass-market quality standards. But there has been a suggestion that it is making product - the first working heavier weather of the higher hall-point pen, the first truly portable computer, a better-tasting artificial sweetener standards and continuous improvement that a BMW strategy requires. can obtain a price premium



Achieving markedly snperior product design and engineering is equally demanding. In Rover's case, this means restoring design and engineering resources squeezed to vanishing point in the crises of the 1970s and 1980s. But in the car industry generally, it means coping with ever-

tougher competition. Each year, a greater leap in design and engineering is needed if you hope to persuade the public that the difference is great enough to warrant a premium price. And any British-hased car manufacturer faces a special task. The car-buying - or, in the case of company fleets, carchoosing - public has no pref-erence for its own indigenous hrands. Indeed, at the upper end of the price range, there is a marked hias in favour of imports. Once such an attitude takes hold, as General Motors is finding in its attempts to resuscitate Cadillac, years of imageenhancement are required to overcome it. Time is, indeed, the fourth demanding aspect of the strategy. A genuinely innovative

from the outset. Such a premium is essentially temporary, quickly competed away by imitators. Long-term premium pricing, however, requires long-term achievements in design, image and quality. In mature industries such as

cars, where hreakthrough innovations are rare, this long-term premium pricing is the Holy Grail. It is exactly what BMW has achieved. Time and consistency are very powerful weapons. A company can offset any temporary weakness in product range, for example, hy allowing an nnexciting model to

draw on the lineage of past outstanding designs. As long as the next model is a return to form, no lasting damage has been done, and margins have been kept up in the meantime. BMW's strategy. forged in the aftermath of the 1959 crisis, took two decades to come to its full flowering. Time is probably the greatest gift that BMW can give to Rover. Patience is a virtue it is easier to exercise close to home, however,

The replacement for Mr Towers, it is said, will be a British executive from outside hoth Rover and its parent. The news comes in the same week as the departure of career gasman Cedric Brown from British Gas and reports that ICI may replace nearly a quarter of its top managers with outsiders over the next 18

months. Meanwhile, GEC has just chosen a new boss from Lucas; GKN has filled its top job with an executive from BOC. Several other engineering companies are looking for bosses, and the assumption is that they will come from outside. It sometimes seems that no-one in British industry rises to the top from inside the

company any more. If the habit of recruiting chief executives from outside has become more prevalent, why has it happened? One pos-sible explanation is the shift of

power within the boardroom over the past decade. Once, executives dominated the board both numerically and in practical terms. Now, thanks in part to the Cadbury committee on corporate governance, there are more nonexecutives with an increasingly important role.

On routine decisions, of course, they usually end up deferring to operating expertise. But ou hig. one-off choices, such as a new chief executive. they come into their own. When such issues arise, the grass on the other side of the fence always looks greener: someone else's wellpublicised chief executive seems a bit more glamorous than the inside candidate. A second reason, often cited

by outgoing chief executives with a sigh, is that de-layering has removed the senior coordinating jobs in which putative successors obtained wideranging responsibilities.

These demand-side forces meet a supply side of headhunters aching to deliver the new chief executives their clients want. But is the resulting musical chairs at the top of British industry desirable? Let's end this article where it hegan, with a lesson drawn from BMW, undoubtedly one of Europe's best-managed companies.

How has it selected its chief executives? The 1959 rescuer, Herhert Quandt, came from outside: but he immediately appointed an insider. Paul Hahnemann, to run the company. It was Hahnemann who devised the successful BMW

strategy. Score one for the insiders. Hahnemann's successor, however, was Eberhard von Kuenheim, who had joined the company only five years before from Robert Bosch. It was nnder him that BMW pushed into export markets,

with great success. One-all. Since 1993, the management board chairman has been Bernd Piscbetsrieder. a career BMW man. Two-one to the insiders. Is there a lesson there for British industry?

BOOK REVIEW · Peter Montagnon

ASIA RISING: By Jim Rohwer Simon and Schuster, \$25, 382pp

A miracle mixture in the growth hot-house

If Jim Rohwer and thus do not generally run large fiscal deficits. is lucky, he ' will make enough out of Asio Rising to

huv the house he covets in the old French concession of Shanghai. If be is right, that house will be worth a fortune hy the time he retires. It is difficult for anybody

with more than fleeting contact with Asia not to come under the spell of its phenome nal growth. Robwer, who spent several years as Asia editor of The Economist hefore joining CS First Boston. is no exception.

In 1960, he notes, South Korea was no richer than Sudan: Taiwan was as poor as Zaire, Even in Japan incomes were only an eighth as high as those of the US. Around that time Gunnar Myrdal, a Nobel Prize-winning economist, wrote a 2,200-page book bemoaning Asia's lack of

export prospects. Now the conventional wisdom has changed. Between 1965 and 1990, the leading economies of east and south east Asia grew three times as fast as those of the industrialised world. Like most Asia hands. Mr Rohwer assumes

that growth will continue. This book is an attempt to explain the Asian miracle. But lt also raises some important questions. Is the miracle really sustainable? And what are the implications for the west?

Though circumstances differ from country to country -Taiwan's approach was radically different from the industrial championing favoured hy Korea - Mr Rohwer finds se eral common factors behind the region's success.

Asia may have an anthoritarian tradition but its governments are less interventionist than those of western democracies. "In human life, economics precedes politics and culture." said Mr Park Chung Hee, who China's growing power and in seized power in Korea in 1961. Asian governments have not North Korea. There is also the risk that Asian society will heen hig spenders on welfare.

hecome flabby as its newly affluent middle classes demand more democracy and welfare. That in turn makes people Mr Lee Kuan Yew, Singamore self-reliant and adaptpore's senior minister, cautions able, more inclined to save. that "we can't have single and more appreciative of the mothers. It's totally unacceptsocial cohesion inherent in ahle, and we keep it unacceptfamily life. Since governments ahle." But divorce rates have distribute less largesse than in risen, and government spendthe west - even South Korea ing has grown sharply in the has been ruthless in cutting off new democracies like Taiwan. industries that failed to per-Rohwer's guess is that Asia form - there is less wasteful spending on vested interests. will steer its way through these minefields. Growth will

Another important difference continue, though it might slow hetween Asia and other develdown for a while around the oping regions was its openness turn of the century as the to new technology and new infrastructure problems are ideas. Brazil tried in vain to finally dealt with. develop a protected indigenous computer industry in the 1980s see in this an opportunity with disastrons consequences for other sectors which depend rather than a threat. The new Asian middle class will create on electronics such as aeroa massive consumer market.

space. Asia hy contrast has been willing to import technology and has not imposed on itself the handicap of an inflexihle industrial policy. Somewhere in this mix lies the secret of Asia's success. Mr Robwer attaches great impor-

tance to the close-knit networks of the overseas Chinese, but, like the rest of us in the western media, he has difficulty breaking in. Legend has it that in 1987 Mr

Ll Ka-shing, the billionaire Hong Kong Chinese businessman, assembled the finance needed for his unsuccessful bid for Hongkong Land in a single all-night session with his mahjong playing chums. That is an wesome sign of financial muscle. It would he intriguing to know more, but the chapter on the overseas Chinese is a mere 14 pages. The Chinese entrepreneurs who play such an mportant role are conspicuous by their silence,

now that China with its 1.2bn The region has its frailties, people has joined the fastgrowth league. Rohwer makes too. Robwer says its institutions may be too weak to regulittle of it. But with his house in Shanghai, he will at least late the complex economies that are now emerging. Its bave hedged his bets. infrastructure is creaking and its financial system primitive. There is a security risk in

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harassment" suggests that you

There is no difficulty with the

hands and their innuendoes to

issue of "political correctness".

themselves. This is not an

The west, he argues, should

McKinsey, the consultancy

group, reckons that owners up

of colour televisions shoots up

from under 40 per cent to

about 75 oer cent when aver-

age annual incomes reach

\$1,000. China already had 60m

consumers in this pool in 1992.

The number will be 270m by

The other side of the coin,

which Rohwer downplays, is

the impact on commodity

prices. Grain prices are creep-

ing up as Asians demand more food. Oil demand will grow as

Western societies will have

to pay higher prices for these

commodities too, Asia with its

canny ways may learn to com-

pensate with higher productiv-

ity, The west, which is less

That is a real concern for the

rest of the world, particularly

adaptable, may simply grow

the turn of the century.

they drive more cars.

relatively poorer.

·LETTERS TO THE EDITOR·

Number One Southwark Bridge, London SE1 9HL

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Cost of ethically unacceptable behaviour

From Prof Michael Singer. Sir, Your leader "Sexual harassment" (April 29) appeared on the same day as detailed press reports here of the allegations against Mitsuhishi. The Equal **Employment Opportunities** Commission alleges in its lawsuit that supervisors at Mitsubishi routinely addressed women employees as "slut", "whore" or "hitch" rather than hy name, that men grabbed women's breasis, huttocks and genitals, that a male employee put an air gun between o

female co-worker's legs and pulled the trigger, that some women had their work sabotaged, resulting in injuries, and more. If these allegations are true, the EEOC is protecting fundamental rights and not, as you put lt, trying "to codify such complexities as relationships between the sexes". Grotesque behaviour of the kind alleged is not only ethically unacceptable. it imposes an economic cost on society. Gross discrimination makes the job market less

attractive to women, and thus distorts the free market just as have forgotten that you have surely as a combinatiou among at least some women readers. traders to crowd out a law in any country as long as in the workplace men (and, of competitor. course, women) keep their

Michael Singer. executive director. International Rule of Law Institute, The George Washington University Law School. Washington DC 20052. US

your editorial "Sexual

but of decent and respectful behaviour towards colleagues. Helen Wallace, From Prof Helen Wallace. Sir, The tone and content of

49 St James's Drive, Wandsworth Common. London SW17 7RN, UK

Greater transparency before forgiving debt Support for

Nigeria is needed

From Mr P. Parker. Sir, We are saddened to read the on-going criticism of Nigeria in the media. Nothing is achieved in this complex world hy boxing your friends into a corner. Nigeria is the most populous hlack country in Africa, having great importance to the world's oil-based economy and to us in the UK, a significant trading

partner. The British bave a well-earned reputation of being excellent diplomats and we ask on behalf of all those who trade with Nigeria for a better understanding of today's Nigeria.

Yes, there are tensions, and, Iet it be said, Nigeria has a legacy of problems whether ethnic or of a political nature. But we must not fall into the easy, and maybe comfortable, position of political correctness with simple dictation to Nigeria of our western terms of

acceptability. To achieve stability and prosperity in the country. Nigeria must be able to look to its friends for respect and support.

P. Parmer. "Understanding Nigeria" Group, **AEC (Afrab European** Company), 35-37 Brompton Road, Knightsbridge, London SW3 1DE. UK

From Mr Enrl A. Ziegler. Sir, Your leading article ("Relieving debt", April 24) could have been written hy the well-meaning folk at Oxfam and Christian Aid. The piece argues that the eight to 20 heavily indebted poor countries named in last week's proposals for relief of World Bank/IMF deht, are crippled in their efforts at self-improvement without such

relief. It ends by saying that it would be "inexcusable" if the "relatively trivial obstacles" presented by the dissenting votes on the boards of these two august institutions were not overcome by their September annual meetings. What nonsense! Many of the named counties became over-borrowed due to corrupt leadership. If they are an embarrassment to the Bank or Fund through nou-payment of obligations, perhaps greater discipline needs to be demanded of them, before any thought of deht-forgiveuess is

entertained The qualifying macroeconomic demands traditionally made by two institutions are often waived. for political reasons, when countries fail to realise them completely: witness Russia. Ukraine, Poland, Mexico and, most recently, Kenya. It would be most useful if the organisations' managements were to demand far greater micro-transparency and accountability on the part of these heavily indehted nations, before thinking of selling off their reserves in funding unmerited deht-forgiveness programmes. Of the listed nations, far greater favour should

certainly be shown to Uganda rather than to Zaire and the Sudan Uganda's President Museveni has invited greater

loug-term micro-auditing of all his government's public sector institutions in exchange for greater deht forgiveness. His worthy initiative should be emulated hy others on the Bank/Fund list. Otherwise, throwing further resources at unaccountable governments would aid neither those countries poor citizens, nor the moral concerns or financial responsibility of the donor community.

Karl A. Ziegler, The Centre for Accountability and Deht Relief, 6 Bradbrook House, Studio Place, **Kinnerton Street** London SW1X SEL, UK

Hardly a global perspective Appropriate

From Mr Richard Bittiner. Sir, Given the circumstances surrounding Chancellor Helmut Kohl's UK visit, your photograph of him reviewing members of the Scots Guards outside 10 Downing Street (April 30) caused me to reflect that it may have been more appropriate for the chancellor to have reviewed a contingent of Beefeaters instead.

Richard Bittiner, Bittiner Whitehouse & Cie, 9 rue Charles-Humbert, PO Box 5132, Geneva, Switzerland

Sir, The advent of globalisation has allowed weak businesses to continue to run where the government would otherwise have had to provide a rescue package. It increases the pool of potential huyers for a given company, thereby improving its liquidity. Clearly there are issues of security that must be addressed when allowing foreign investment to be introduced. Whether the outside interest is Texan or otherwise has no bearing, however.

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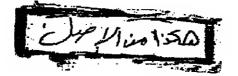
From Mr Grant Kennedy. Your article ("Industrialist deplores 'overseas masters' ", April 29) states that Sir William Barlow, former chairman of the Post Office and of BICC, the cahles and construction company, has had long experience of husiness operating globally. His summary dismissal of Texans reveals a myopia that falls short of global perspective,

Grant Kennedy,

1701 Millenia Tower,

1 Temasek Avenue,

Singapore 039192



COMMENT & ANALYSIS

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700 Thursday May 2 1996

Expanding Nato eastwards

Javier Solana, secretary-general of Neto, has been getting a muted reception on his tour of would be members in central Europe. That is not surprising, since he has lit-is to offer. "At this moment, no country has been ruled out, and no country has been ruled in", he epeats at each stop. As President Vaclav Hevel

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pointed out after welcoming Mr solana in Prague, "it has been six rears since the fall of the Iron Curtain". It is also two years since the alliance's leaders declared that they "expect and would welcome sato expansion that would reach to democratic states to our east as part of an evolutionary process Last autumn Nato completed its study of "how and why" this prorest should proceed. But the more invitious decisions on "who and when" will not be taken until this December's summit, at earliest, One reason for this leisurely timetable is that 1996 is an election year both in Russia and the JS. No one in Nato likes the idea of giving Russia, a non-member, a veto on the alliance's decisions. But no one wants, either, to help Gennady Zyuganov, the Russian communist leader, achieve victory in June. In reality there is no reason to suppose that many Russian voters will be influenced by Nato's attitude. But repeated warnings from the Yeltsin camp that Nato enlargement would strengthen hardline tendencies in Russia have clearly had some effect.

Electoral suspicions

Many Europeans believe that US enthusiasm for enlargement is fuelled by electoral considerations (the "Polish vote"), US policymakers streunously deny this, but say they hope to delay any move on enlargement until after the US election in November, if only in order to refute such suspicions. It may not be easy for them to do so, bowever, if Senator Dole takes up the theme during the campaign. "Even when both sets of elections are out of the way, the decision may not look any easier. A victorious Mr Zyuganov may well adopt a conciliatory line towards the west, in which case there will be no lack of western voices urging that this line should be encouraged and rewarded, and that hasty

opposite effect. Equally a re-elected Boris Yeltsin can be expected to continue urging his western friends not to isolate Russia by expanding Nato up to its borders. In addition, and more persua-sively, countries such as Ukraine and the Baltic states will continue to plead that their security is more directly threatened than thet of any central European country, and that any enlargement leaving them out in the cold might actually make things worse rather than better. Yet no known scenario provides for their inclusion in the first wave of new members.

Slow processes

ldeally, EU expansion should precede or at least accompany Nato expansion. Once central European countries are within the EU their security will be indissolu-bly connected with that of western Europe, and their inclusion in Nato should seem more natural both to Russians and to Nato's existing members. But advocates of Nato enlargement, especially in the US, are understandably rehuctant to make it wait on the slow and tortnous EU processes of intergovernmental conference, reform of the structural funds and common agricultural policy, and separate clause-by-clause entry negotiations with each new candidate for membership.

If the EU were capable of seizing the strategic initiative it would cut this Gordian knot by immediately identifying the first batch of new members and embarking on a broed-brush negotiation with them, aimed at giving them full political membership within two years and leaving the economic detail to be worked out over a long transition period. Nato could meanwhile be working out, with Russia, a new system of collective security based on the Organisa-

tion for Security and Co-operation in Europe. What is unacceptable is for central Europe to be kept waiting indefinitely while Nato and the EU play "Gaston and Alphonse" That would dangerously demoral ise central Europeans, while encouraging Russians to think they can always intimidate the west if they try hard enough.



A road strewn with obstacles

Bob Dole's chances of defeating Bill Clinton in November's presidential election look increasingly remote, says **Jurek Martin**

he only poll that matters is the one on the first Tuesday in November when America elects its next president. But a survey of public opinion by Mr Galinp this week should have served as a wake-up call to Senator Bob Dole,

now seriously adrift on the road to the White House. It was not so much the numbers that were chilling for the Senate majority leader and presumptive Republican presidential candidate. A 21-point deficit behind President Bill Clinton may be bad, but previ-ous candidates, including Mr Clin-ton in 1992 and vice-president Mr George Bush four years earlier, have recovered from double-digit shortfalls.

But it was the invocation of his-tory that showed how steep a hill Mr Dole has to climb. Never in its 60-year record of polling, Gallup said, had any candidate been as far

ahead as Mr Clinton six months

before election day and gone on to lose. Worse, and unlike 1992, all the

movement in public opinion now

seems to be in the direction of the

among the first to suggest that Mr Dole stand down as majority leader and get on with the business of waging ideological war against Mr Clinton. But Mr John Rasich, chairman of the House budget committee, wondered if he could, given his epparent inability to "articulate the

All three, leading proponents of the conservative revolution that was supposed to have dawned in 1994, have never been particular fans of Mr Dole, to whom newfangled ideology and ideas have always appeared alien. But the Republican governors of California, New York and New Jersey are cut from his pragmatic cloth and they, too, are now warning of impending Heaster Mr Pete Wilson this week joined

George Pataki and Mrs Christie Whitman in stating that if the Republican party platform contins to demand that abortion be ban-

Republican congressional landshide reflected the temporary ascendancy of the "angry white male", the gen-der gap is now working in the opposite direction, with poll after poll giving Mr Clinton a 20-point lead among women. This is partly because of abortion and partly women's fears about the radical changes to the healthcare and welfare system proposed by Republicans.

But whenever Mr Dole bends in a clearly popular direction, conservatives hold his feet to the fire. Increasing the federal minimum wage, last raised to its present \$4.25 an hour in 1989, is a case in point. Whatever the arguments of economists and the business lobby, it commands broad support, including among moderate Republicans.

r Dole conceded recently that an

bly "inevitable", an

Wyoming, not to support the sort of reductions in the influx of skilled foreign workers that the Republican business lobby is set against.

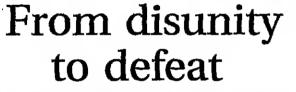
The recent surge in petrol pump prices, Mr Dole is discovering, does not respond to a quick-fix solution. Repealing the 4.3 cents-a-gallon tax surcharge of 1993 bas obvious political appeal but the budgetary consequence - the loss of \$30bn in revenues over six years - has forced him to settle for a modest one-year suspension. Even this left him open to a fast White House counterattack pointing out how often he has supported higher petrol levies. Health insurance reform, another

cause popular in both parties, is proving a minefield. There are few disagreements with this modest measure making coverage portable from job to job. But if Mr Dole insists on including tax-free medical savings accounts, a conservative priority, the whole bill may be lost

being thrown at one of them, Mr John Engler of Michigan, variously portrayed as looking like a "thug",

a womaniser and e draft-dodger, Mr Colin Powell, the former chairman of the joint chiefs of staff, is seen by many as the only person who can pnt a Republican in the White House. But there is no evidence that he is interested - and if he were, it may be wondered wby he would be interested in second place on the party ticket.

There may be less to fear for Mr Dole from a Ross Perot candidacy, should one emerge. Some polls sug-gest the electronics billionaire now draws as much support away from Mr Clinton as Mr Dole. But in important states, especially in the south, be could have the opposite effect. In his native Texas, for example, a Perot presence, together with mobilisation of the Hispanic vote by Mr Victor Morales, the Democrat running against Senator Phil



Another round of local elections. Another rout. And another bout of speculation about Mr John Major's leadership. For the government, humiliation in the annual council elections has become a depressing ritual. So too has the fevered gossip at Westminster ebont the prime minister's future.

There is little doubt that the Conservatives will do badly in today's contests. When the same council seats were last fought in 1992, the government was riding high in the aftermath of its general election victory. Now it trails Mr Tony Blair's Labour party by between 20 and 30 points.

The progressive weakening of the independence of local govern-ment has also taken its toll. Most important decisions over spending, services and amenities are taken in Whitehall rather in the town halls. The incentive for voters to treat the elections as little more than a national opinion poll

has never been greater. Optimists in Conservative Central Office believe the party might lose about 500 of the 1,100 council seats it is contesting this time. Many Tory MPs expect worse. The istic forecasts are of losses of 900 or more seats. Such an outcome would all hut eliminate the Conservatives as a serious force in local government. It would also stoke the fires of speculation as to whether Mr Major should remain. The answer that Tory MPs should give to that question is an unequivocal yes. Mr Major offered his party the opportunity to choose a new leader last year. It decided against change. Nothing since suggests that the government can climb from the mire by ditching the orbit minister.

Bloody contest

Those who assume that Mr Major could be replaced by Mr Michael Heseltine, his deputy, in a bloodless Downing Street coup are grading in fantasies. In a speech esterday to the Newspaper Society, the prime minister gave uo inkling that he might stand aside. If he were to be forced out, the deep Tory divisions between left and right, between Eurosceptics and pro-Europeans, would be torn open in a bloody contest. The eventual victor would probably inherit a party which was ungov-

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And the second second second second second second second second second second second second second second second

ernable. The electorate, rightly, would conclude that the Conservatives had given up any claim to

remain in office. To focus on Mr Major is also to ignore the more fundamental problems facing the government and the Conservative party. Certaintly there is much that can be criticised in his style of leadership. The prime minister is a tactician rather than e strategist. His anxiety to appease his critics has often been at the expense of a clear sense of purpose. But Mr Major is more a symptom than a cause of the disunity and divisions which so damage the government

Economic realities

His fiercest critics are demanding an ideological lurch to the Eurosceptic right. They want to

fight the general election on a platform of much lower spending and taxation and of an aggressive assault on the euthority of the European Union. But this is a prospectus which matches neither political nor economic realities.

As Mr Malcolm Rifkind, the for eign secretary, commented yester day, the UK's national interest lies firmly in remaining an active member of the Union. The govern ment cannot renege on past trea-ties. And, for all the wishful thinking among some Eurosceptics, the trade and economic advantages of the single market would not be available outside the EU.

Nor can the government secure easy votes hy slashing spending on the welfare state to pay for pre-election tax cuts. In a powerful speech this week, Mr Heseltine offered e timely reminder that general elections in the UK are won not from the left or the right but from the centre. It is always tempting for parties to pander to the prejudices and instincts of their core supporters. But, as Labour discovered during the 1970s and 1980s, to do so is to sacrifice the support of the uncom-mitted centre whose votes are essential to win elections.

If the Conservatives are to

retain any chance of political

recovery before the general elec-

tion they must face such realities.

If nothing else, there will be one

clear message from the outcome of

today's elections. The road of dis-

unity invariably leads to defeat.

incumbent. His Democratic party is also reaping the benefit, to the point that the Republicans might also end up losing the control of Congress they won so dramatically in 1994. Republicans have been sounding

alarm bells for some time, none more loudly than Mr William Kris-tol, former aide to vice-president Mr Dan Quayle and now editor of the Weekly Standard, e new conservaweekly standard, e new conserva-tive magazine. "Bob Dole is likely to lose the presidential race to Bill Clinton. He may lose badly," be wrote earlier this week. "The current conventional wisdom in Washington notwithstanding, it is not inevitable that the race will tighten up. Some races simply settle in." Mr Bill Bennett, education secre-

tary in the Bush cebinet, was

Zen and the

Referendums have a way of unleashing emotions. Take next Sunday's poll in Berlin and the surrounding state of Brandenburg, where voters are being asked to decide whether the two should

vote, the Christian Democratic party in the posh west Berlin suburb of Zehlendorf has put out posters stating that a merger would bring a return to a

- at whose heart sat the present-day region of Brandenburg - was abolished by the Allied on the (perhaps unfair) ground that it was the root of all German militarism. And while most of its citizens were certainly nominally Christian, Prussia always prided itself on religious freedom, as far back as Frederick the Great.

lost on the youth wing of the Social long-time neighbour and rival. Such humour is unusual for a political campaign in Germany. have acquired its own taste for

ned, moderate and independent votes will disappear. The governor of California said this, at a press conference, just before a campaign strategy session with Mr Dole.

His intervention brought howls of protest from the Christian Coalition and other social conservatives, and from the rump of Mr Pat Buchanan's campaign. All threatened defections and, in the case of Mr Buchanan, a third-party movement should the pro-life plank be ditched. Mr Dole, never comfortable in talking about abortion in public, sought to placate both sides - thus satisfying neither. He agreed to Mrs Whitman's eppointment as a con-vention co-chair but placed two strong anti-abortionists in charge of the pletform committee.

A convention split over the issue, echoing the Houston battle four years ago, bodes ill for Mr Dole's appeal to women voters, among whom he must do better to stand a chance in November. If the 1994

admission that induced a volcanic eruption from Rush Limbaugh, still influential from his rightwing radio talk booth. The minimum wage issue is but one example of how the Democrats in Congress, more united than at any time since the 1960s, are making it hard for Mr Dole to run for president from Capitol Hill. They are doing to him what the Republicans did to the Clinton agenda in

1994 when comprehensive healthcare reform and a fistful of other proposals were defeated, blocked and eviscerated. The clear purpose is to dany the Republicans any record of legislative echievement on which to run in November.

This fiscal year's budget bas finally been agreed, but only after Republican concessions on the envi-ronment and education. On immigration reform, this week's priority. he has to persuade e fellow Republican, Senator Alan Simpson from

either in Congress or to a presidential veto. But Congress is Mr Dole's milieu

and he is unlikely to improve his ratings should he leave it for the campaign trail. The latest set speeches - on the "liberal" Clinton judiciary and the evils of "socialist" public housing - have been wooden. One, in Indianapolis last Saturday, was delivered so late it went largely unreported, a problem that his lessthan press-friendly campaign encountered in earlier primaries. If there is a "vision", it remains obscured.

Nor is there much encouragement in the "veepstakes", slang for his choice of a running mate. A lethal insider's article by Fred Barnes in the Weekly Standard describes a "dirty bloody battle" between leading aspirants, among them four midwestern governors, former gov-ernor Carroll Campbell of South Carolina and Senator John McCain of Arizona. Much of the mud is

establishment. Goldman Sachs is

acquisition of Bauque Indosuer. Compagnia de Suez has retained Morgan Stanley. But the community of French

advising Gredit Agricole on its

Gramm, could greatly improve the president's chances on what is now unfriendly ground. Second-guessing Mr Perot's intentions is notoriously difficult, but the man's ego is vast and, as Cragg Hines of the Houston Chronicle wickedly points out, the law prevents Mr Perot spending more than \$1,000 "on any candidate other than himself".

Mr Dole, his primary funds, unlike Mr Clinton's, almost exhausted, cannot spend much to promote himself outside Washington over the summer. So he presumably must stay and slug it out in the congressional trenches.

And he must repeat to himself that e decent, moderate conservative ought to have a fighting chance against an incumbent whose popularity is not in the stratosphere and who could be undone by anything from Whitewater to Russia or Bos-nia. But sadly for Mr Dole, that is not what the pollsters are finding with six months to go.

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Financial Times

100 years ago Assassination of the Shah A despatch from Teberan announces that the Shah of Persia has been shot. The doctor of the German Legation who attended his Majesty only arrived in time to certify that life was extinct. (Renter). The news that the Shah has been sessinated will cause a shock of surprise and indignation throughout Burope, where the unfortunate potentate was well. known owing to his not infrequent visits. The motive of the crime is not yet known: possibly it never will be. The political consequences of the event may be far-reaching. (The Shah assussinated at a time of increasing exposure by his

country to western trade and ideas was Nasir ud-Dia.] 50 years ago

Canadian Pacific Railway Despite a falling off in traffic volume in 1946 – a frend which is expected to continue - Mr. D.C. Coleman, chairman and president of the Canadian Pacific Railway Company, does not anticipate that calls upon railway services will be drastically reduced in the immediate future. But he warned shareholders at the annual meeting in Montreal yesterday that the existing narrow margin between earnings and expenses left the company extremely

vulnerable.

art of voting

merge into one single *Land*. In an attempt to mobilise the conservative, historically aware

"Christian Prussia". ...This is a bit naughty as Prussia

Powers after the second world war, Such maccuracies have not been

Democratic party, which has responded with posters calling for a "Buddhist Saxony", Prossia's But then the referendum seems to comedy. Brandenburg's

minister-president - Manfred reluctant to let him go; so are the Stolpe - and his Berlin counterpart fans. - Eberhard Diepgen - recently mounted a motor-bike and a My dear, it's divine

OBSERVER ·

tractor, to show just how easy it is for city and country to come. together. Great photo-call - but 🔳 Late last night ; Lama Yeshe, the abbot of the Samye Ling Tibetan Centre near Estimation In Scotland, arrived in Moscow His hardly very Prussian.

Italian dribbling

Franco Bernabé is one man who has breathed a big sigh of relief at the centre-left victory in the Halian general elections. As chief executive of ENI, the partially privatised and highly profitable state of company, his job was in the firing line from an incoming rightwing Berlusconi government. Technically he should have been

confirmed or replaced a month ago; but the Dini government shied away from moving on such a sensitive appointment in the election run-up. Now word has gone out that Bernabé will on May 14 be confirmed as chief executive

for another five years. The Italian public at large is far more concerned by the fate of another manager, affected by politics of a different kind. At stake is the future of Fabio Capello, indefatigable manager of AC Milan, the cup-winning football team owned by Silvio Berlusconi. Capello last weekend saw Milan win its fourth league title in his five years' management. His contract is up and he wants to join Real Madrid. But Berlusconi is

Buddhism has been attracting thousands of new adherents particularly among the young. Testifying to the religion's new popularity, the Dalai Lama miniself

for Boris Yeltsin, now facing a tough prospect in the forthco presidential elections. While his communist rival Gennady Zyuganov is embracing old workerist symbols, Yeltsin could drop by the new temple and ingratiate himself with the disaffected youngsters. Mind you, he'd probably only be greated by the sound of one hand clapping.

How incestions is the world of French investment banking. There was a time when Lazard Frères advised on every deal, sometimes on both sides. Now the Americans have broken in on a transaction at the heart of the French financial

Sur the community of French investment bankers remains small. Family thed, in fact, Goldman Sachs's team is led by Yoel Zaoul, Morgan Stanley's by his brother Michael, Other investment banks wanting to get into the Parisian scene can always call the middle mission - to help set up the city's first Buddhist tample. He is there-at the invitation of the city'sbudding Buddhist community,

is planning a visit. Observer spots an opening here

Brother love

brother, currently an optician Cook heats the pot Bolin Cook, Britain's shadow foreign secretary, has been taking the temperature in Hong Kong,

including a walkabout with Governme Chris Patien in Wanchai, the girlie bar district. Cook was extremely impressed by the warm reception Patien received. So does be see Patien as potential leader of the Tories? Ever nimble footed, Cook merely said that Patten "has

Conservative party in Britain[®] The normally icy Cook continued. He would require an awful lot of persuading, he said, of the need to replace Patten, should Labour take office after the next general election. Maybe not such a ringing endorsement - the poll is up to a year away, and Patten has to give Hong Kong back to the Chinese in July 1997.

achieved much more popularity in Hong Kong than he could ever possibly achieve with the

LEGAL DEFINITIONS property n. Brit. 1 leaf tea served from a aliver pot (issu. Earl Grey, English Breakfast etc.) 2 something owned; a possession, esp. read esme see ROWE & MAW: asap (ph 0171-248 4282) Rowe & Maw

LAWYERS FOR BUSINESS

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FINANCIAL TIMES Thursday May 2 1996

Italian poll winner offers key posts to Berlusconi

By Robert Graham in Rome

The rightwing alliance headed by Mr Silvio Berlusconi, the former Italian prime minister, has agreed to discuss an offer from the Olive Tree coalition, which won last month's general election, to take important posts in the new Italian parliament.

The decision comes as the rightwing parties are debating whether to act as a united opposition such as the Italian parlia-

ment has never seen before. Immediately aftar tha right-wing parties' election defeat, Mr Giuliano Ferrara, editor of the pro-alliance daily II Foglio, argued strongly for the creation of a British-style opposition.

He said the alliance parties should combine to form a coherant opposition block, form a shadow cahinet and reject any deals with the government. In this way the opposition could prepare for the next elections to offer a genuine alternative. But the defeated rightwing alli-

ance has yet to reconcile widely D'Alema, head of the Party of the differing positions. Mr Berlusconi Democratic Left (PDS), the dominant group in the alliance, said they did not want a situation in entered politics two years ago purely to become prime minister, and his Forza Italia movement is still wholly unaccustomed to the idea of opposition.

The former Christian Democrats who agreed to ally with Mr Berlusconi are equally onused to opposition, while the National Alliance of Mr Gianfranco Fini is handicapped by the need to prove it has dissociated itself from its scist heritage. Tha leading figures in the

rightwing alliance met on Tuesday to discuss the future of the opposition, and the agreement to accept the Olive Tree offer suggests the moderates overcame those arguing that the opposition should cut no deals with the government

the country's power stations.

The government move follows

director of Bord na Mona,

claimed I£141,000 (\$218,850) in

expenses over the three years to

last March of which I£39,000 was

Under government guidelines

year compared with the I£150,000

to 1\$200,000 he was paid in each

Mr O'Connor has said all ele-

ments of his package were

approved by the previous chair-

man, Mr Brendan Halligan, a former secretary-general of the Irish

paid without receipts.

of the last three years.

After the April 21 general elections, Olive Tree leaders made clear they wanted a constructive dialogua with the opposition. Both Mr Romano Prodi, the Olive Tree leadar, and Mr Massimo

which the victors at the polls occupied all the seats of power. The offer to Mr Berlusconi and his allies was intended to prevent a repetition of the situation produced by the March 1994 general

election. Then Mr Berlusconi's rightwing alliance sought to place its members in all the major jobs in parliament and recruited supporters for posts in aensitive state companies and institutions such as the RAI

broadcasting organisation. The Olive Tree is willing to offer the Berlusconi camp the post of speaker of one of the two houses of parliament and the lead role in at least two of the main parliamentary commissions. The speakers of the senate and chamber of deputies are the two most important institutional roles after the presidency.

Observer, Page 15

Developing nations criticise **Asian bank**

over loans

By Edward Luce in Manila

Laading Asian horrowers, including Malaysia and China, strongly criticised the Asian Development Bank yesterday for attaching stringent conditions to its loans

the ADB, holding its annual meeting in Manila this week, had displayed "bureaucratic rigidity" to recipient countries and had often failed to pursua proper

otten tailed to pursua proper development aims. Neither country singled out specific policy conditions for crit-icism, but the speeches were a thinly veiled attack on the ADB'a goal of ensuring that 40 per cent of total loan volume and 50 per cent of all projects be directed to

social and environmental ends. The policy, which the ADB adopted in 1994, was seen as a concession to the aims of leading western donors, notably the US. Meanwhile, China and India have complained at being excluded from the ADB's soft-loan window, which extends subsidised loans to poorer Asian nations. The US rejected their demand for eligibility. Mr Ibrahim told the ADB gov-

ernors: "Imposing uniform measures on every country hy ignoring their lsvel of development and social costs involved in the reform process would be tantamount to a form of punishment on the borrowers

"Donors should not use their contributions as a means to dictate terms and conditions that aggravate rather than alleviate the difficulties of poor countries." The ADB, which until 1994 concentrated lending almost exclusively on set-piece infrastructure - mainly power and transport -projects aimed at boosting economic growth rates in Asia, has

experienced difficulty in splitting the loans halfway between social and more commercial projects. Financial rates of return on

social and environmental proects are often too low for market-level interest rates on the loans to be viable.

The cost of borrowing on more traditional projects has subsequently been pushed up to a min-

THE LEX COLUMN Chinese crackers

FT-SE Eurotrack 200: 1728.2 (-4.9)

The cut in Chinese interest rates has more symbolic than practical signifi-

down from a 1994 peak of 21 per cent -the government is signalling that it feels able to add fuel to the economy

again. There is a risk that the ailing

state sector will see this as encourage

first quarter rings some alarm bells.

should be able to prevent another feeding frenzy. Besides, a more active

KLM/Northwest

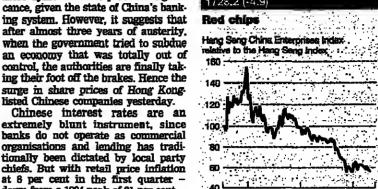
right to increase its holding and Northwest struggles to fend off what it

History suggests that joint ventures

are inherently unstable: ultimately,

they either break up or develop into a closer union. In this case, the obvious temptation for KLM, in the face of

sees as threat of a takeover.



Jul 93 1994 . 1995 Source: FT Extel Northwest's cold shoulder, is to look

ment to stick its snout back into the banking trough. The 26 per cent elsewhere. As one of the best operated European airlines, it would have no increase in state bank loans in the problems finding another partner: indeed, American Airlines, still flying solo, might welcome an approach. In addition, KLM has said it still wants However, Beijing has established greater control over the regions and to hook up with another European airline. All this means the dream-team of interest rate policy offers hope that the govarnment will accelarata reforms of the banking system. British Airways, KLM and American is still worth fantasising about.

UK power

Given the flood of money into Hong Kong that accompanied mainland Chi-If Britain's generators have a clear "plan B" strategy, they are keeping it well-hidden. The problem is simpla: na's last economic boom, the colony'a property developers represent proba-bly the most sensible bet on an easing the government's decision to block of the Chinese austerity programme. After all, 12 of the 18 Chinese compatheir bids for regional electricity companies has left them with remarkably strong balance sheets and nowhere to nies listed in Hong Kong saw profits fall last year, and slack management was as much to blame as the economy. put the money. The right answer now is to hand big sums back to shareholders, reshaping the companies' inefficient capital structures

The worry for shareholders is that it KLM and Northwest Airlines are sending out mixed signals about the future of their partnership. Northwest is far from clear whether this is the plan - or indeed whether there is one. For managements, there must be a-strong temptation to hold back, keep-ing investors sweet with a promise to claims it would like to expand the scope of the partnership, even though it admits KLM is considering calling it off. The reality is that the relationship iooks untenable. The airlines' codeincrease dividends over the medium term. That way, cash can be gradually sharing deal has been one of the most dribbled out to help massage the commercially successful. But follow-ing Northwest's introduction of a poigloomy prospects for earnings. And a big war-chest can be kept handy, so son pill to prevent KLM from raising managements need not be stuck with the boring business of managing a UK its stake in Northwest to 25 per cent, the two companies are now locked in a legal battle, as KLM tries to restore its generator

If sound acquisitions can be found, this is all well and good. But with high-paying US power companies scouring the globe, the odds are against it; the bot competition in recent Australian power sales is certainly a bad sign. Moreover keeping balance-sheets strong on the off-chance of some natty acquisition is

not only inefficient; it is also danger ous. It offers a particularly juicy target for the Labour party's planned wind-fall tax. And it leaves the companies vulnerable to takeover. For National Power in particular, handing out a big chunk of cash now would certainly raise the stakes in its poker game with

Southern Company. The generators are busy making up their minds. If shareholders want their interests to be heeded in this process, they need to get moving, and make their voices clearly heard.

Railtrack

. AMERICA'S Leading

The train is leaving the station, and whether to hop on A giance at Rail-track'a financial strength provides powerful reasons to do so: formidable scope for cost-cutting, fat provisions to absorb any nasty surprises and a dis-tinctly healthy balance sheet. Yat most investors are taking a truly conservative view of the company'a future cashilow; with a more realistic view setting in over time the prospects for the shares should be rosy. But even if the ceutious view turned out to be correct, it would not justify a yield as high as the 6.8-7.6 per cent range for retail investors implied by the indicative pricing. Even tha water sector, which the market tends to undervalue

and which is much further down the cost-cutting curve, trades at an aver age of 6 per cent. Ah yes, say tha doubters, but what about the Labour party? They are

right to take the threat seriously. For-get nationalisation; it is Labour'a plan to bring the rail regulator under government control which is the real worry. That would give it the power to exploit Railtrack's financial strength to political advantage: it could, for instance, force the company into a chronically uneconomic investment such as Crossrail, Railtrack could avert this threat by tautening its bal-ance sheet, handing cash back to shareholders before the election. But investors cannot count on it.

In short, investors have to balance the company's financial potential against the likelihood that a Labour government will constrain investors ability to get their hands on it. This is not vastly different from the judge ont investors have to maka in the water sector; if anything, the big difference in rail is not that the political risks are higher but that the financial potential looks greater. Yet the shares are cheaper. They are a buy.

> Additional Lex comment on textiles, Page 23

Ireland to probe **News** Corp group in TV top executives' pay card law suit after expenses row **Continued from Page 1**

anccess of BSkyB, and other parts of News group's TV inter-ests, because they are designed to ensure only paying subscribers receive transmissions.

In taking action against Mr Bruce Hundertmark, a former News International director, and 10 other defendants, News group alleges he had an undisclosed interest in a company which held 20 per cent of the group's smart card subsidiary, News Datacom. It is also claimed that others conspired to ensure the group became reliant on one supplier.

Mr Arthur Siskind, a director of News Corp and its general counsel, coocedes that News gronp's management "did not have the technical expertise to challenge" a former employee named in the writ, alleged to have taken part in the conspir-

Tax avoidance questions have also arisen involving News group's smart card husiness. Internal company documents

seen by the FT show how News

in 1994, the most recent year for By a Dublin Correspondent which figures are available

An inquiry has been announced Details of Mr O'Connor's remnneration package came to light following the appointment of a new chairman, Mr Pat Dineen, in into the pay of top executives of Ireland'a state-owned companies following the revelation of alleged irregularities at Bord na Mona, which produces peat for September.

Ha atopped all unreceipted expense payments and put a stop to the bulk purchase of expensive its admission that Mr Eddie French wine for "corporate pur-O'Connor, former managing poses" and the use of a timeshare in Portugal by senior executives. He also commissioned a report from Price Waterhouse which identified a number of other ulleged irregularities including "extra to business" expenses and purchase of suits in lieu of medi-Mr O'Connor was entitled to a package worth around I£100.000 a cal insurance.

The directors of the company have called for a second report covering Mr O'Connor's nine years at Bord na Mona.

Mr Ruairi Quinn, minister for finance, has asked all ministers to confirm that the remuneration. of the chief executives of the state companies under their control conforms with govern

Mr Anwar Ibrahim, deputy prime minister of Malaysia, said

and structure from 1988 to 1992 to minimise the tax payable to authorities in Israel, where its research and development subsidiary operated, and in the UK.

An independent tax expert said it was an example of

"extreme tax planning". News group says it has broken no laws. Israeli tax authorities have "indicated that they do not intend to pursue any claim against News Datacom

Documents seen by the FT also show how News Datacom executives had some of their remuneration paid as consultancy fees, but booked as directors' fees in the accounts.

Labour party. These included flights for his family and payments towards a car for his wife. guidelines.

Mr O'Connor is credited with Bodies covered by the investiturning around the debt-ridden gation include utilities such as the Electricity Supply Board and state company, which made profits of LC5m on turnover of LC130m the state gas company Bord Gais.

Cummins and Fiat venture

Continued from Page 1 Tha deal seems certain to intensify the competition Cummins customers mainly in between Cummins and Perkins of Europe. In addition, Cummins believes the UK, its main rival in multipurpose diesels. Perkins also col-

it will make a further 160,000 or laborates with several manufacso engines a year of the new type turing groups such as the Agen at its plants in the US for sales in and Navistar tractor and truck North America and possibly Asia. makers.

FT WEATHER GUIDE

Europe today

The British isles and most of Spain will have fresh to strong breezes. Low pressure in the Bay of Biscay will bring cloud and rain to western France, the western Iberian peninsula and south-east England. The Benelux and south-eastern France will have showers and some thunder. Western Europe will remain mainly cool. Most of Germany will be cloudy and wet, and the Czech Republic and eastern Poland will pays couch a take. Remark and the Balkan states will have thundery showers, and south-Europe will be sunny, with temperatures of more than 20C in Greece and Turkey.

Five-day forecast

widespread showers over the next few days, becoming dry and sunny by kend. Cloud and rain over ly east, and western Russia will in the north.

TODAY'S TEMPERATURES

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date subsidies on the "softer" lending projects Countries such as China have complained this is tantamount to

meddling in its domestic politics. "The bank should give adequate attention to the importance of economic growth in its pursuit of social development objectives," Mr Jin Jieyan, deputy governor of the People's Bank of China,

said vesterday. To impose conformity ... is not likely to work and may even produce an adverse impact on some developing members."

US seeks to bar China, India from fund, Page 6

The Euroyen Future from LIFFE and TIFFE

The leading derivatives exchanges in Europe and Asia have linked up to offer global market users direct access to the world's most liquid Euroyen contract (open interest, 1.2 million lots) throughout the trading day.

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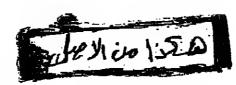
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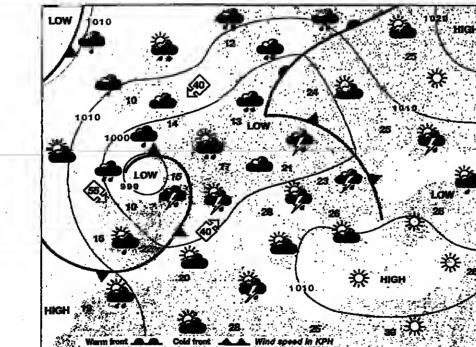
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The Benelux and France will have

the v Italy and central Europe will move slov remain wet. The UK will becom warm and dry, but with some shower